Commonwealth of Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

Martin J. Benison, CGFM
Comptroller of the Commonwealth

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Commonwealth Museum

This year we are proud to show some of the hundreds of unique and historical documents in the collection of the Commonwealth Museum at the Massachusetts Archives.

The Commonwealth Museum is the Massachusetts state history museum administered by the Office of Secretary of the Commonwealth William F. Galvin.

The Commonwealth Museum is located in the Massachusetts Archives building on Columbia Point, Boston, next to the John F. Kennedy Library and Museum and the University of Massachusetts, Boston. Hours are Monday- Friday 9:00 – 5:00. Admission is free. The museum has an active field trip program for school children. For information or to schedule a group tour call 617-727-9268.

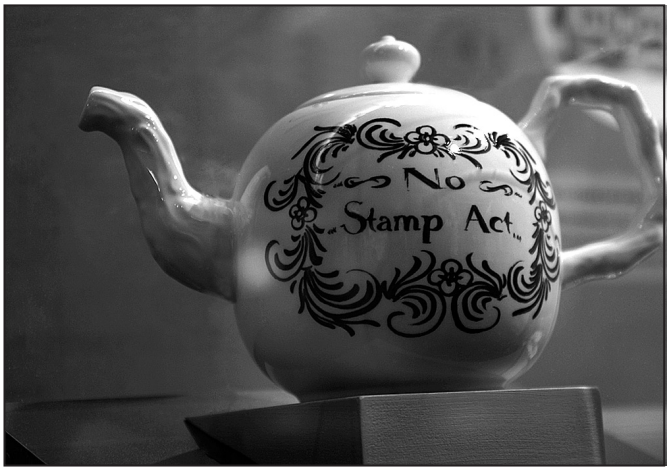
www.commonwealthmuseum.org

Cover: Charter of the Governor and Company of the Massachusetts Bay in New England, 1629

King Charles I granted a charter to the Massachusetts Bay Company in 1629. Governor John Winthrop, sailing on the Arbella, brought the charter to Massachusetts. The charter established a trading company, with twenty-six men named as incorporators. Once the Puritans arrived in Massachusetts, they transformed the charter to serve as a frame of government rather than as a business contract. The new colony's boundaries were set at three miles north of the Merrimack River and three miles south of the Charles River, as far as the Western Sea.

The beginnings of representative government in America can be traced to this manuscript.

Courtesy of the Commonwealth Museum at the Massachusetts Archives
Photography by Jennifer Fauxsmith



Photography by Vinh Nguyen

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

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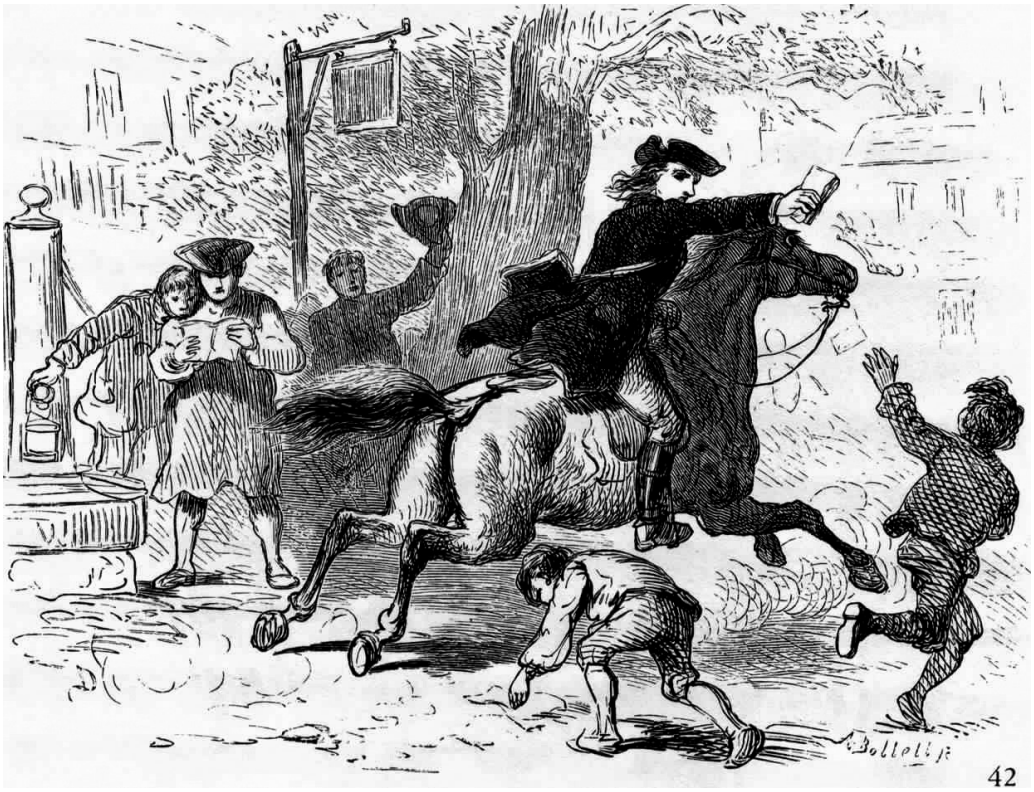
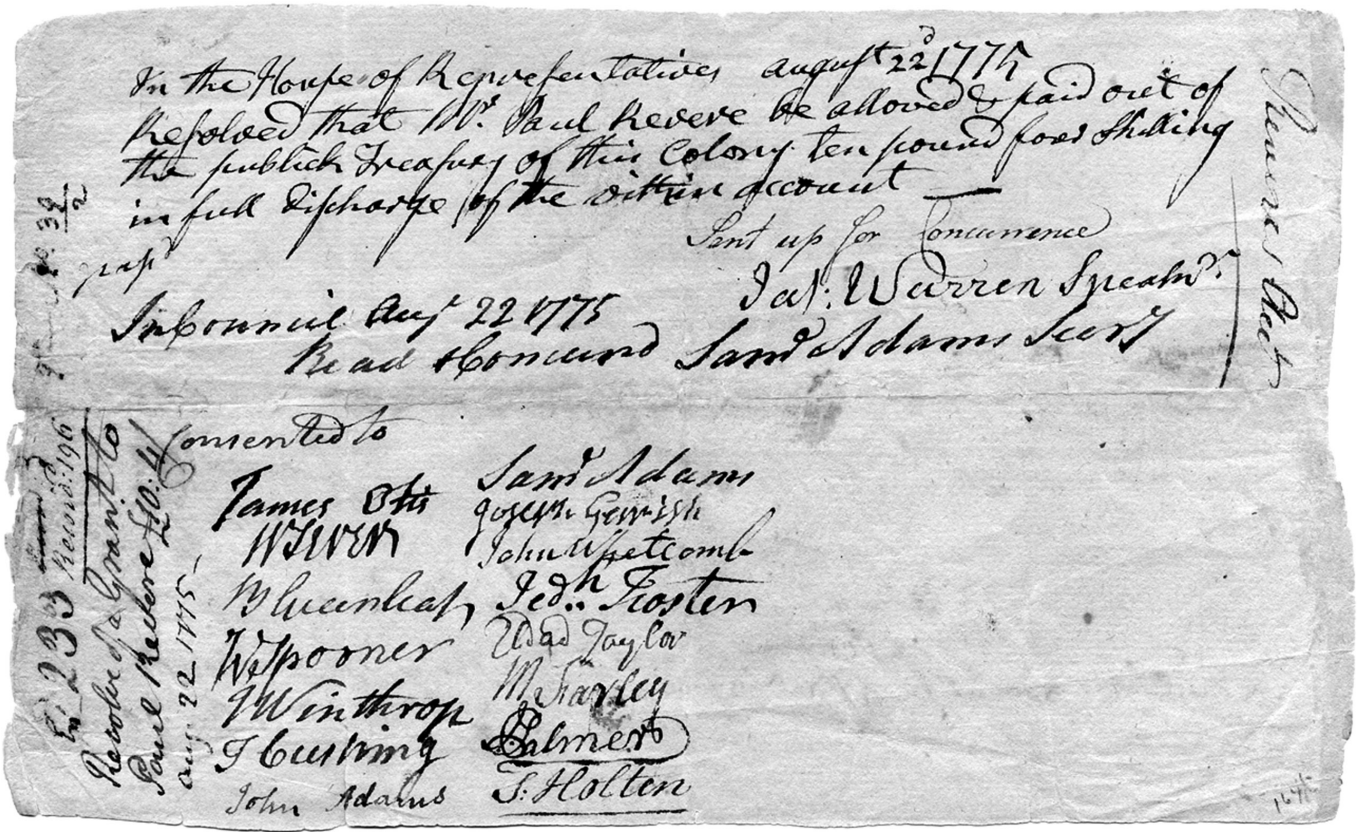


Courtesy of the Paul Revere Museum

Paul Revere's Bill for Riding, 1775

After the battles of Lexington and Concord, Paul Revere made a series of rides to publicize events. He submitted this account to the Committee of Safety, "To my expenses for self and horse during that time."



Introductory Section

Letter of Transmittal
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Commonwealth Organizational Structure
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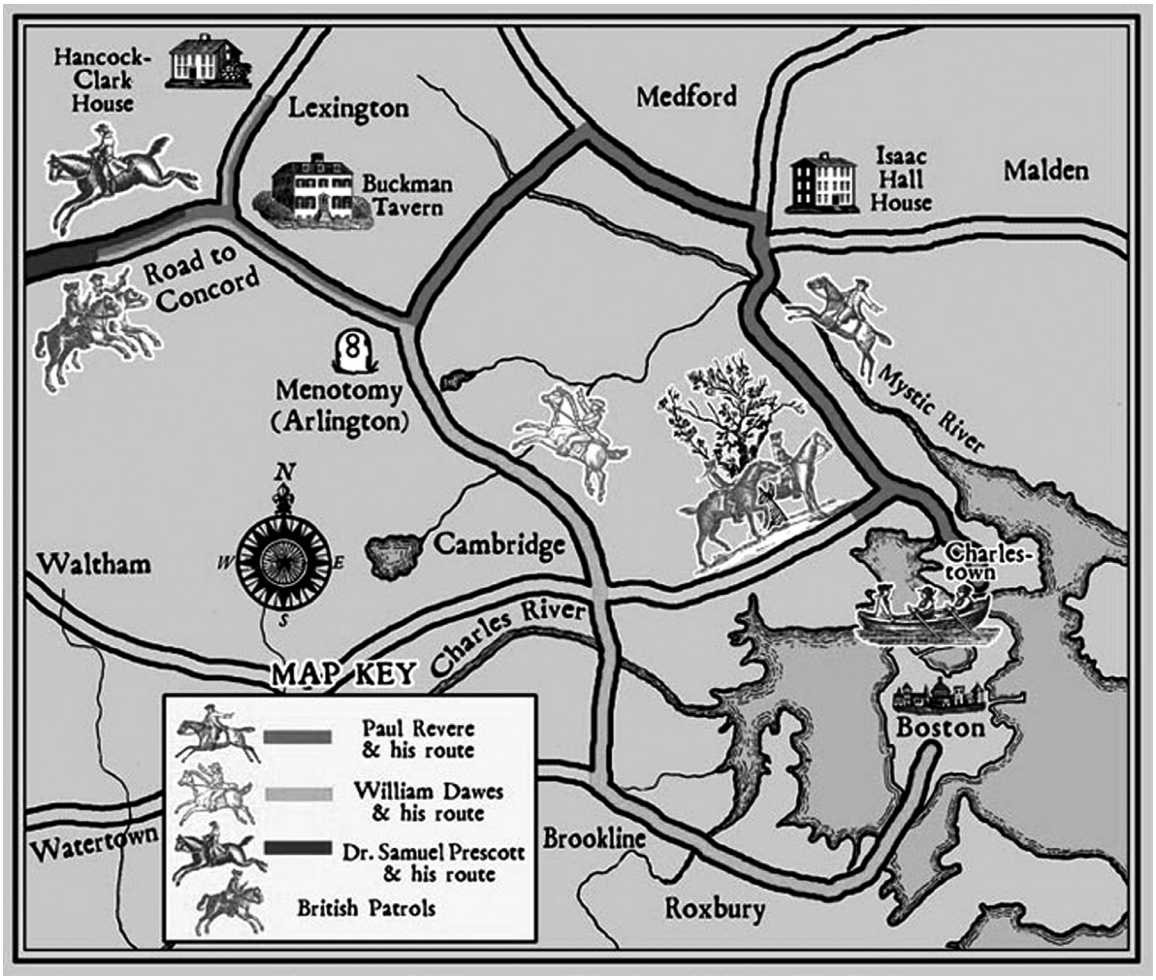
Certificate of Achievement



Courtesy of the Paul Revere Museum

Unless otherwise noted, all documents and text courtesy of the Commonwealth Museum at the Massachusetts Archives

Special thanks to Stephen Kenney, Museum Director

Treasures Gallery

The collections of the Massachusetts Archives document the history of Massachusetts, from its colonial beginnings to the present day. Included among these collections are some of our nation's most important historical treasures, foundation documents of both the Commonwealth of Massachusetts and the new United States.

The permanent exhibition of such rare manuscripts requires advanced encasement technology that protects and preserves them, and the encasement units for the foundation documents of Massachusetts on view at the Commonwealth Museum provide a new standard for document display. Technical foundations and practical insight for these encasements was provided by the National Institute of Standards and Technology (NIST), creators and fabricators of the encasements used for the "Charters of Freedom" on display in the rotunda of the National Archives. The innovative new case design, as well as a state-of-the-art, multi-layered seal system, was created by the Department of Mechanical Engineering at MIT. MIT also provided direction and oversight of the precision fabrication, assembly, testing and monitoring of the encasement units.

"I am therefore commanded…to request, that you will cause the same to be put upon Record, that it may henceforth form a Part of the Archives of your State…"
John Hancock, 1777

Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108

January 18, 2011

To the Citizens of the Commonwealth of Massachusetts, Governor Deval L. Patrick, Lieutenant Governor Timothy P. Murray, and Honorable Members of the General Court

I am pleased to transmit the Commonwealth's fiscal year 2010 (FY10) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The objective of this report is to provide a clear picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY10 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting.

All capital assets are added to the statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government–wide statements, the balance sheet has been organized into a "net assets format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the Management's Discussion and Analysis (MD&A) section and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, financial and public sectors. The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted. It is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three bases of accounting: the statutory basis presented in separately issued financial statement this past October; the fund basis; and entity-wide basis statements, included in this report.

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets

(Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2010:		
Budgeted fund balance	$ 903.1	
Non budgeted special revenue fund balance	886.6	
Capital projects fund balance	(256.9)	
Governmental Fund Balance - Statutory Basis, June 30, 2010		**$ 1,532.9**
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes		441.0
Trust fund reclassified as Permanent trust fund		5.0
Adjusted Statutory Governmental Fund Balance		**1,978.8**
Short term accruals, net of allowances and deferrals for increases /(decreases):		
Taxes, net of refunds and abatements	$ 1,668.4	
Tobacco settlement agreement receivable	132.0	
Medicaid	(335.2)	
Assessments and other receivables	161.4	
Amounts due to authorities and municipalities, net	(508.2)	
Claims, judgments and other risks	(20.0)	
Amounts due to health care providers and insurers	(91.9)	
Workers' compensation and group insurance	(134.1)	
Other accruals, net	199.6	
Net increase to governmental fund balances	**1,071.9**	
Massachusetts School Building Authority fund balance	**1,535.0**	
Total changes to governmental funds		**2,606.9**
Governmental fund balance (fund perspective)		**$ 4,585.7**
Plus: Capital assets including infrastructure, net of accumulated depreciation		3,998.7
Deferred revenue, net of other eliminations		821.8
Long term accruals:		
Pension benefits cumulative over / (under) funding		(1,218.1)
Post employment benefits other than pensions cumulative over / (under) funding		(1,953.0)
Environmental remediation liability		(168.2)
Massachusetts School Building Authority debt and school construction payables		(7,378.4)
Long term debt, unamortized premiums and deferred losses on debt refundings		(19,903.0)
Compensated absences		(469.8)
Capital leases		(76.6)
Accrued interest on bonds		(303.0)
Other long term liabilities		(309.4)
Total governmental net assets (government-wide perspective)		**$ (22,373.4)**

The significant deficit of $22.4 billion in the government-wide net assets can be largely attributed to the Commonwealth policy decision to finance the construction of assets owned by other government entities.

On June 25, 2009, the Commonwealth enacted legislation effective on November 1, 2009, known as the Transportation Reform Act. It reformed the transportation system of the Commonwealth of Massachusetts (Commonwealth) and created the new entity, the Massachusetts Department of Transportation (MassDOT). This is the most significant reform within the Commonwealth in recent history and has had far reaching impacts throughout the Commonwealth and throughout these financial statements. The reform was implemented merging four state agencies into MassDOT: the Highway Department; Registry of Motor Vehicles; Massachusetts Aeronautics Commission; and the Executive Office of Transportation. MassDOT also absorbed the former Massachusetts Turnpike Authority, the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. In addition, MassDOT absorbed the MBTA and 15 regional transit authorities. It now holds over $15.5 billion in road and bridge assets net of related depreciation. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. A complete explanation of MassDOT and its effect on these statements can be found in the MD&A section of this report. In addition, the Commonwealth holds $7.4 billion in debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns.

The deficit in FY10 governmental activities has increased by $10.2 billion since the close of FY09. The vast majority of this increase is the result of transferring $8.9 billion in net equity to MassDOT. The remainder of the increase in the deficit, $1.3 billion, is primarily attributable to three factors:

- A spending down of governmental funds balances in order to, where possible, minimize the impact of the economic downturn and the resulting decline in Commonwealth revenues;
- The Commonwealth funds its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was $804 million in FY10; and,
- The Commonwealth funds its pension liability on an actuarial basis; however its methodology varies from GAAP in some instances. In particular, the Commonwealth updates its funding schedule triennially. For purposes of calculating GAAP accruals, the Commonwealth annually updates its actuarially required contribution; this accrual is increased by $653 million in FY10.

These three declines are somewhat mitigated by an increase in the Commonwealth accrual of taxes receivable. The tax accrual is due to a revaluation of receivables.

REPORTING ENTITY

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, financial statements include 16 independent public authorities. These entities are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The Massachusetts School Building Authority is blended into the Commonwealth's operations.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP, with assistance from the Office of the State Auditor (OSA), have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2010. OSA also plays a significant role in the audit of the Schedule of Expenditures of Federal Awards of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditors' report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's annual report available on their web site: http://www.mass.gov/sao.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because of the cost, internal controls should not outweigh their benefits. The Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

In addition to the dramatic changes in the Commonwealth, the Office of the Comptroller operations under went a dramatic change this past July, when after 15 years of dedicated service to the Commonwealth, Deputy Comptroller Eric Berman left to begin a new chapter in his life as a partner in a public accounting firm in southern California. In previous years Eric was the author of these financial statements. He was instrumental in leading the Commonwealth's financial reporting analysis in the Commonwealth, its institutions of higher education and its component units. Eric was seen as a mentor to many preparers and auditors throughout the Commonwealth. More importantly, he was a friend. We wish him well in his new venture.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

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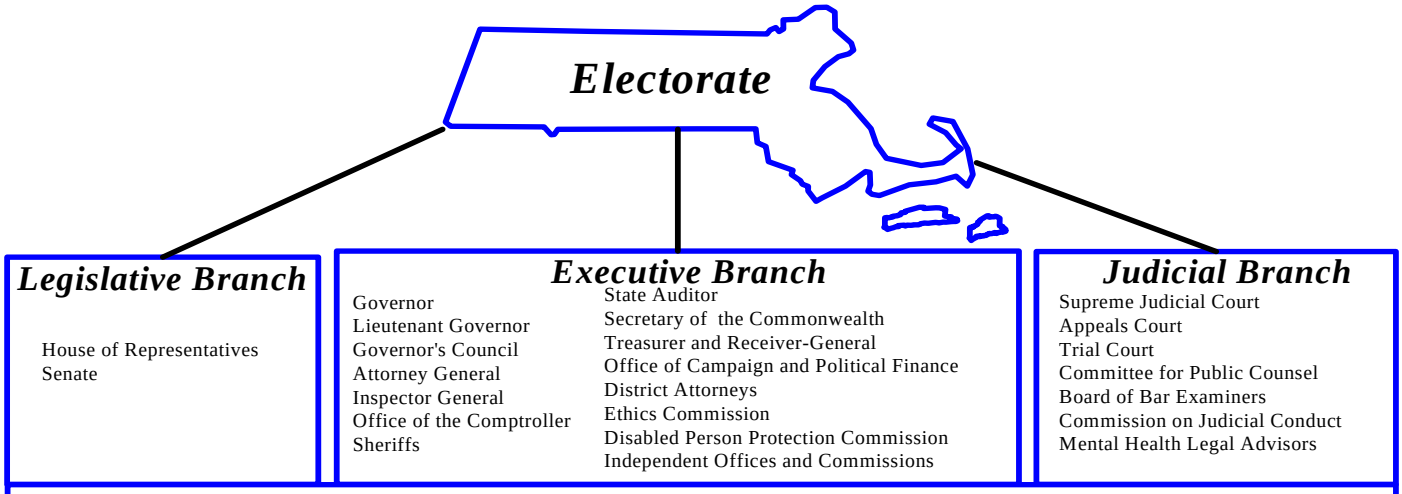


State Agencies

Administration and Finance
Executive Office for Administration and Finance
Appellate Tax Board
Bureau of State Office Buildings
Civil Service Commission
Department of Revenue
Developmental Disabilities Council
Division of Administrative Law Appeals
Division of Capital Asset Management and Maintenance
George Fingold Library
Group Insurance Commission
Human Resource Division
Information Technology Division
Massachusetts Office on Disability
Massachusetts Teachers' Retirement System
Operational Services Division
Public Employee Retirement Administration Commission

Public Safety
Executive Office of Public Safety and Security
Chief Medical Examiner
Criminal History Systems Board
Department of Correction
Department of Fire Services
Department of Public Safety
Department of State Police
Massachusetts Emergency Management Agency
Merit Rating Board
Military Division/ Massachusetts National Guard
Municipal Police Training Committee
Parole Board
Sex Offender Registry

Housing and Economic Development
Executive Office of Housing and Economic Development
Department of Business Development
Office of Consumer Affairs & Business Regulations
Department of Housing & Community Development
Department of Telecommunications and Cable
Division of Banks
Division of Insurance
Division of Professional Licensure**
Division of Standards

Energy and Environmental Affairs
Executive Office of Energy and Environmental Affairs
Department of Agricultural Resources
Department of Conservation and Recreation
Department of Environmental Protection
Department of Fish and Game
Department of Public Utilities
Division of Energy Resources
State Reclamation Board

Transportation and Public Works
Department of Transportation *

Labor and Workforce Development
Executive Office of Labor and Workforce Development
Department of Labor
Department of Workforce Development
Division of Industrial Accidents
Division of Labor Relations

Health and Human Services
Executive Office of Health and Human Services
Executive Office of Elder Affairs
Department of Children and Families
Department of Developmental Services
Department of Mental Health
Department of Public Health
Department of Transitional Assistance
Department of Veterans' Services
Department of Youth Services
Division of Health Care Finance & Policy
Massachusetts Commission for the Blind
Massachusetts Commission for the Deaf and Hard of Hearing
Massachusetts Rehabilitation Commission
Office for Refugees and Immigrants
Soldiers' Home, Holyoke
Soldiers' Home, Massachusetts

Education
Executive Office of Education
Department of Early Education and Care
Department of Elementary and Secondary Education
Department of Higher Education
State and Community Colleges
University of Massachusetts System

Health Care Security Trust

Board of Library Commissioners

Commission Against Discrimination

As of June 30, 2010
** Merger of 4 former state departments (Executive Office of Transportation and Public Works, Massachusetts Aeronautics Commission, Massachusetts Highway Department and Registry of Motor Vehicles) and the former Massachusetts Turnpike Authority as of 11/01/09*
*** State Racing Commission has been merged into Division of Professional Licensure as of 1/1/10*

CONSTITUTIONAL OFFICERS

Deval L. Patrick
Governor

Timothy P. Murray
Lieutenant Governor

William F. Galvin
Secretary of State

Martha Coakley
Attorney General

Timothy P. Cahill
Treasurer and Receiver-General

Steven Grossman
*Treasurer and Receiver-General – Elect**

A. Joseph DeNucci
Auditor

Suzanne Bump
*Auditor – Elect**

LEGISLATIVE OFFICERS

Therese Murray
President of the Senate

Robert A. DeLeo
Speaker of the House

JUDICIAL OFFICERS

Margaret Marshall (through 12-7-10)
Chief Justice, Supreme Judicial Court

Roderick L. Ireland (effective 12-8-10)
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

**Officials taking office in January 2011*

ADVISORY BOARD TO THE COMPTROLLER

Jay Gonzalez (Chair)
Secretary for Administration and Finance

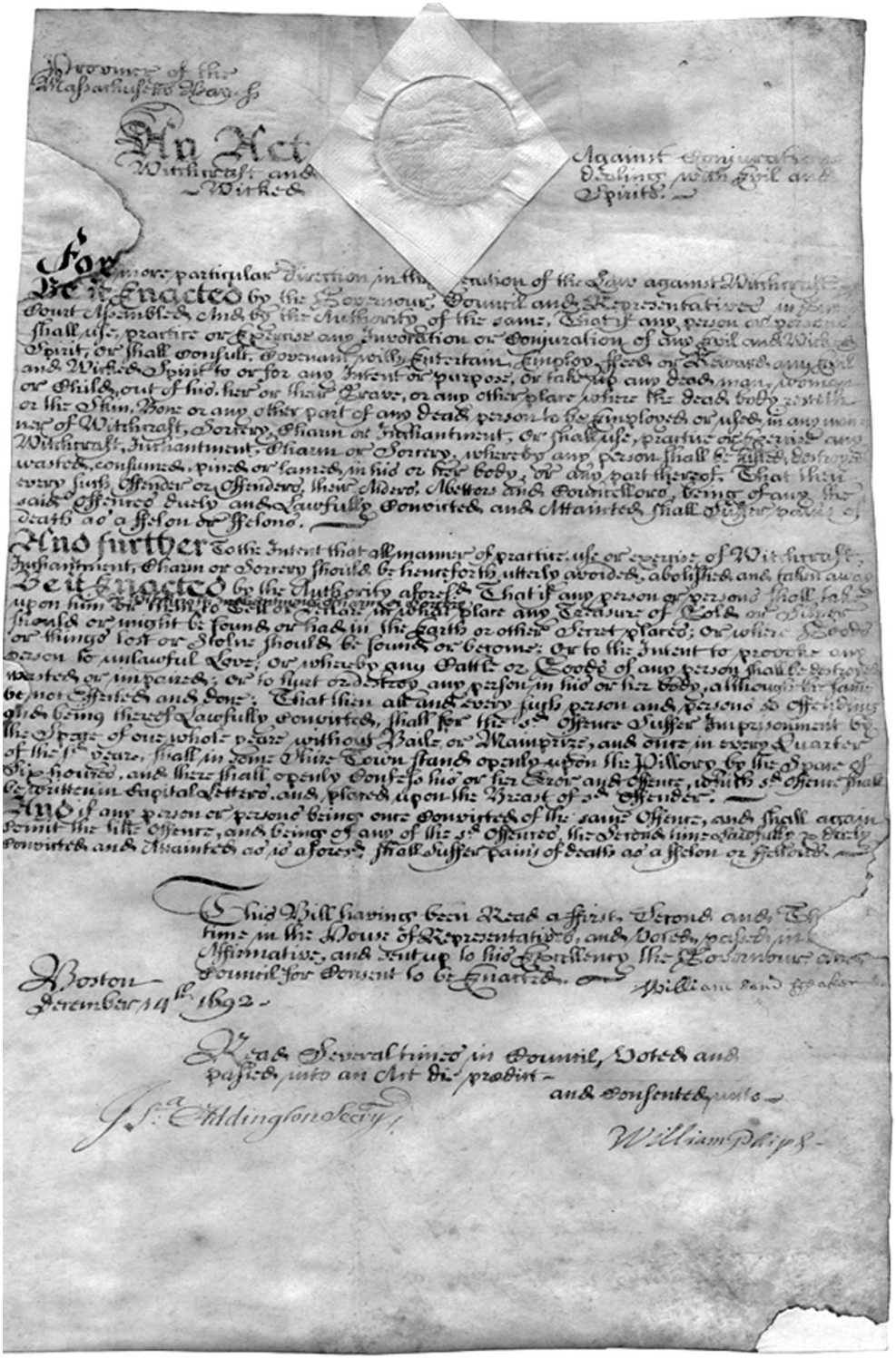
A. Joseph DeNucci
Auditor

Timothy P. Cahill
Treasurer and Receiver-General

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

Martha Coakley
Attorney General

Diana Salemy
Gubernatorial Appointee

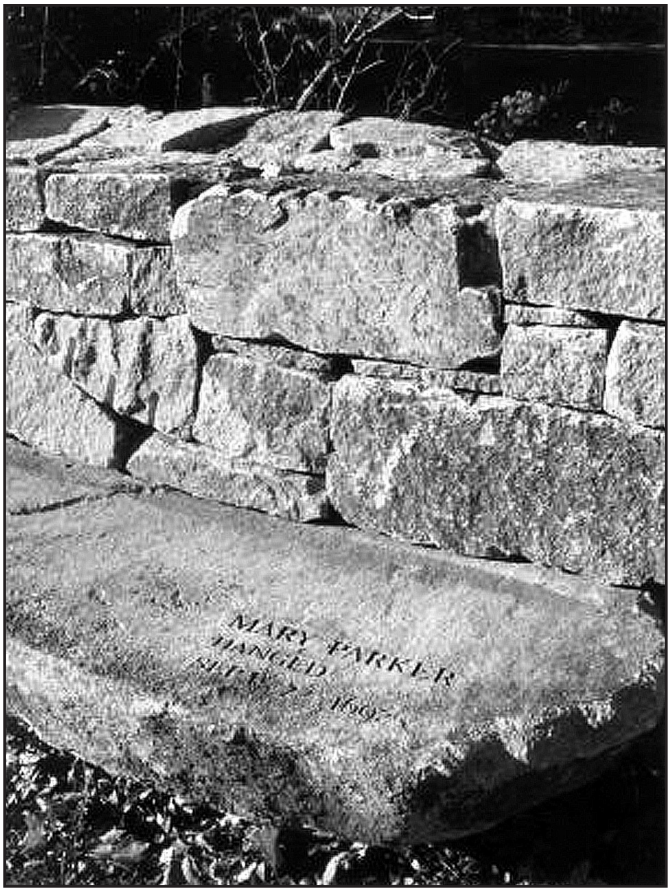


1692 Conjuration Act

Act against Conjuration, Witchcraft and Dealing with Evil and Wicked Spirits, 1692 (drawn up after trials). Many accusations were based on "spectral" evidence—victims claiming that they'd been haunted by a witch's spirit in a dream or vision. Despite its alarming title this document is a step forward—banning spectral evidence.

In 1692, 14 women and 6 men were accused of being witches, were tried, convicted, and executed. Executions took place on June 10, July 19, August 19, September 19 and September 22, 1692.

Advocates of civil rights and human tolerance use the events of 1692 as a yardstick to measure the depth of civility and due process in contemporary society.



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The Salem Award for Human Rights and Social Justice has been given each year since 1992 to keep alive the lessons of the Salem Witch Trials of 1692 and to recognize the heroic work of those who speak out and take action to alleviate discrimination and promote tolerance in contemporary society. Recent recipients have included Greg Mortenson for his work building schools in Afghanistan and Pakistan, especially for girls; and the Coalition of Immokalee Workers for its work to help end slavery in the US agricultural industry.

Designed by artist/architect team Maggie Smith and James Culter of Bainbridge Island Washington, the Salem Witch Trials Memorial is a reminder of the lessons of tolerance and understanding learned from the Salem Witch Trials. The design incorporates multiple elements of stone and planting to symbolically represent the social indifference to the persecutions that took place in Salem in 1692.

The Salem Witch Trials Memorial was funded by a grant from the National Endowment for the Arts and donations from many businesses and individuals. The design has received national critical acclaim.

www.salemaward.org

The Salem Witch Trials Memorial

The Salem Witch Trials Memorial was dedicated on August 5, 1992 to honor the memory of the victims of the Salem Witch Trials on the Tercentenary of the trials. Dedicated by Nobel Laureate Elie Wiesel, the memorial serves as an enduring tribute to the victims of the Salem Witch Trials and as a reminder that among all people and nations a spirit of tolerance and understanding should prevail.

In 1692, in Salem, then part of the Massachusetts Bay Colony, hundreds of people were accused of practicing witchcraft, defined by the court at the time as a crime. From June 10 to September 22, nineteen people were convicted and hanged for that crime and one was crushed by stone for refusing to follow court procedure. They were victims of fear, superstition and a court system that failed to protect them. Since that time, the Salem Witch Trials have continued to intrigue and inspire historians, writers and experts in fields such as law and medicine.

© *Paul Lyden 1992*

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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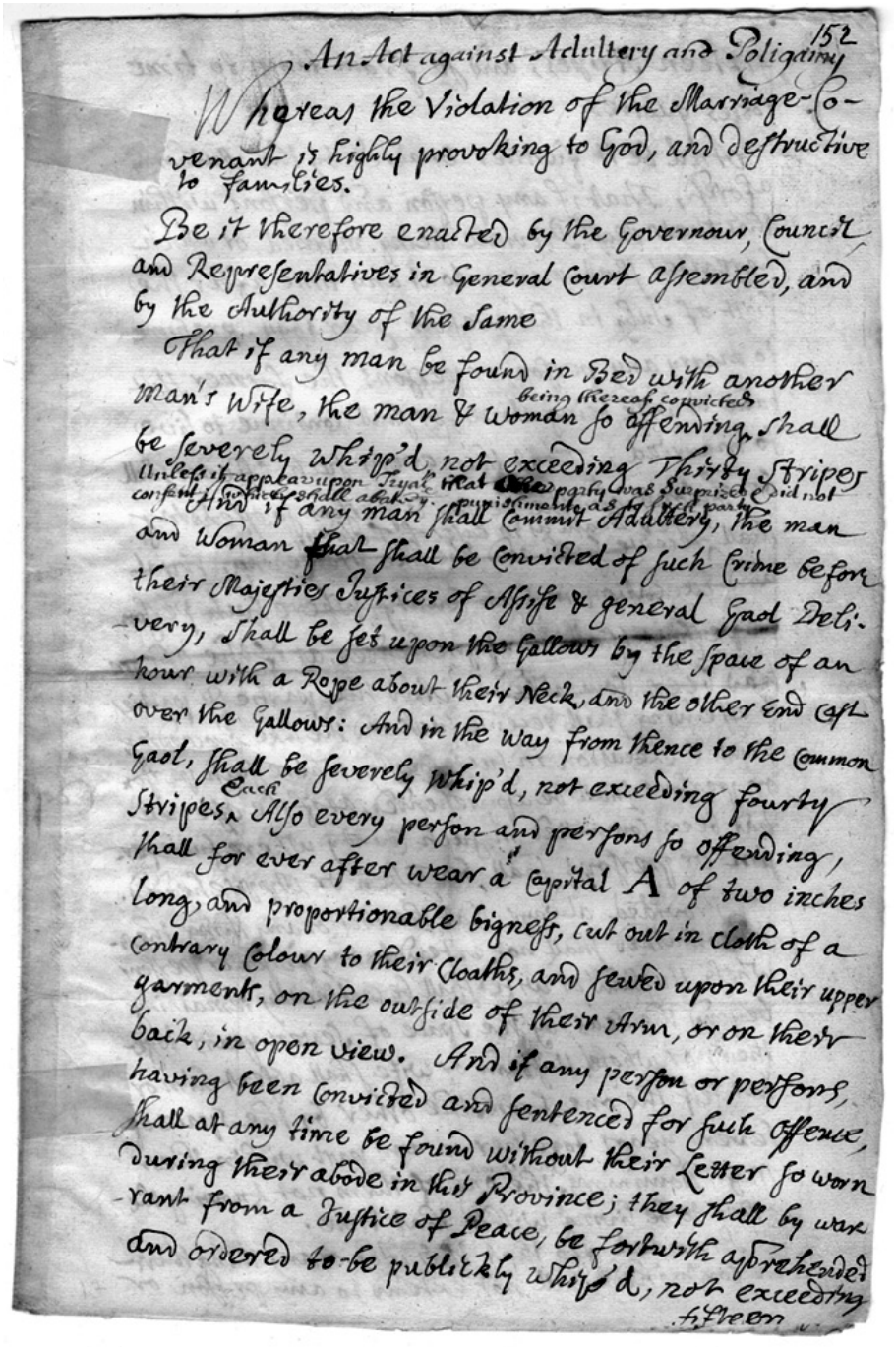
Financial Section

Independent Auditors' Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to the Basic Financial Statements
Required Supplementary Information Other Than Management's Discussion and Analysis
Other Supplementary Information



An Act against Adultery and Poligamy 152

Whereas the Violation of the Marriage-Covenant is highly provoking to God, and destructive to Families.

Be it therefore enacted by the Governour, Council and Representatives in General Court assembled, and by the Authority of the Same

That if any man be found in Bed with another Man's Wife, the man & woman so offending being thereof convicted shall be severely whipp'd not exceeding Thirty Stripes Unless it appear upon Tryal that the party was Surprized & did not consent And if any man shall Commit Adultery, the man and Woman that shall be convicted of such Crime before their Majesties Justices of Assize & general Gaol Delivery, shall be set upon the Gallows by the space of an hour with a Rope about their Neck, and the other end cast over the Gallows: And in the way from thence to the common Gaol, shall be severely whip'd, not exceeding fourty Stripes Each Also every person and persons so offending, shall for ever after wear a Capital A of two inches long, and proportionable bigness, cut out in cloth of a contrary Colour to their Cloaths, and sewed upon their upper garments, on the outside of their Arm, or on their back, in open view. And if any person or persons having been convicted and sentenced for such offence, shall at any time be found without their Letter so worn during their abode in this Province; they shall by warrant from a Justice of Peace, be forthwith apprehended and ordered to be publickly whip'd, not exceeding fifteen

Puritan Law, 1694

This law – made famous by Nathaniel Hawthorne - mandates wearing the letter "A" for adultery. The text notes that the Capital A should be "of two inches Long and proportionable bigness."

Harsh puritan punishments, such as whipping, cutting off ears, and branding reflected seventeenth-century English practices.

The Scarlet Letter was published as a novel in the spring of 1850 by Ticknor & Fields. It was an instant best-seller, although, over 14 years, it brought its author only $1,500. The Scarlet Letter was also one of the first mass-produced books in America. Into the mid-nineteenth century, bookbinders of home-grown literature typically hand-made their books and sold them in small quantities. The first mechanized printing of The Scarlet Letter, 2,500 volumes, sold out within ten days.

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INDEPENDENT AUDITORS' REPORT

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts
Boston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2010, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 89% of the total assets of the business-type activities. We did not audit 48% of the total assets of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 9% of the total assets of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 6% of the total assets of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of certain nonmajor component units identified in Note 13 were not audited in accordance with *Government Auditing Standards.* An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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("KPMG International"), a Swiss entity.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1(r), in fiscal 2010, the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011, on our consideration of the Commonwealth of Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information, listed in the accompanying table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Massachusetts' basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

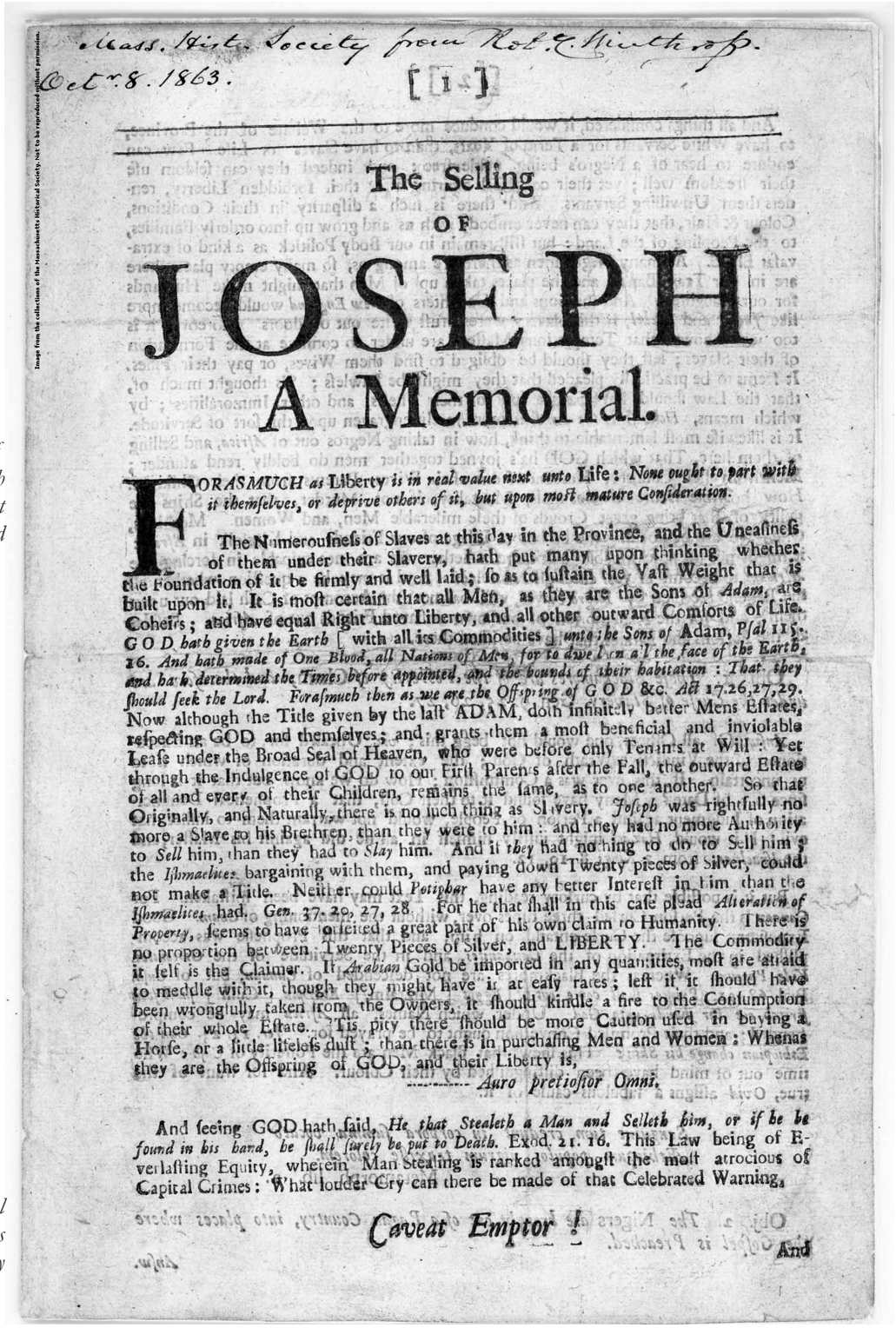
KPMG LLP

January 18, 2011

Image of Samuel Sewell
Courtesy of the Peabody Essex Museum

Samuel Sewell

Samuel Sewell was the only judge to take personal responsibility for the injustice of the Salem Witch Trials. Later he wrote the *Selling of Joseph*, the first anti-slavery tract, and advocated Indian rights. He also wrote about the equality of women. Sewell points the way from the moralistic Puritan culture to a tradition of social reform.



Mass. Hist. Society from Robt. C. Winthrop.
Oct^r. 8. 1863.

[1]

The Selling
OF
JOSEPH.
A Memorial.

FORASMUCH as Liberty *is in real value next unto* Life: *None ought to part with it themselves, or deprive others of it, but upon most mature Consideration.*

The Numerousness of Slaves at this day in the Province, and the Uneasiness of them under their Slavery, hath put many upon thinking whether the Foundation of it be firmly and well laid; so as to sustain the Vast Weight that is built upon it. It is most certain that all Men, as they are the Sons of *Adam*, are Coheirs; and have equal Right unto Liberty, and all other outward Comforts of Life. *GOD hath given the Earth* [with all its Commodities] *unto the Sons of* Adam, *Psal* 115. 16. *And hath made of One Blood, all Nations of Men, for to dwell on all the face of the Earth, and hath determined the Times before appointed, and the bounds of their habitation: That they should seek the Lord. Forasmuch then as we are the Offspring of* GOD &c. *Act* 17.26,27,29. Now although the Title given by the last ADAM, doth infinitely better Mens Estates, respecting GOD and themselves; and grants them a most beneficial and inviolable Lease under the Broad Seal of Heaven, who were before only Tenants at Will: Yet through the Indulgence of GOD to our First Parents after the Fall, the outward Estate of all and every of their Children, remains the same, as to one another. So that Originally, and Naturally, there is no such thing as Slavery. *Joseph* was rightfully no more a Slave to his Brethren, than they were to him: and they had no more Authority to *Sell* him, than they had to *Slay* him. And if *they* had nothing to do to Sell him; the *Ishmaelites* bargaining with them, and paying down Twenty pieces of Silver, could not make a Title. Neither could *Potiphar* have any better Intereſt in him than the *Ishmaelites* had. *Gen.* 37. 20, 27, 28. For he that ſhall in this caſe plead *Alteration of Property*, ſeems to have quieted a great part of his own claim to Humanity. There is no proportion between Twenty Pieces of Silver, and LIBERTY. The Commodity it ſelf is the Claimer. If *Arabian* Gold be imported in any quantities, moſt are afraid to meddle with it, though they might have it at eaſy rates; leſt it ſhould have been wrongfully taken from the Owners, it ſhould kindle a fire to the Conſumption of their whole Eſtate. 'Tis pity there ſhould be more Caution uſed in buying a Horſe, or a little lifeleſs duſt; than there is in purchaſing Men and Women: Whenas they are the Offſpring of GOD, and their Liberty is,

Auro pretioſior Omni.

And ſeeing GOD hath ſaid, *He that Stealeth a Man and Selleth him, or if he be found in his hand, he ſhall ſurely be put to Death.* Exod. 21. 16. This Law being of Everlaſting Equity, wherein Man Stealing is ranked amongſt the moſt atrocious of Capital Crimes: What louder Cry can there be made of that Celebrated Warning,

Caveat Emptor!

And

This is the only surviving copy of Samuel Sewall's The Selling of Joseph pamphlet, the first anti-slavery tract published in New England

The Selling of Joseph: A Memorial
Courtesy of the Massachusetts Historical Society

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Management's Discussion and Analysis
(Unaudited)

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2010 (FY10). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

Structural changes as a result of the creation of the Massachusetts Department of Transportation

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth's financial statements.

On June 25, 2009, the Commonwealth enacted legislation, effective on November 1, 2009, known as the Transportation Reform Act. It was designed to reform the transportation system of the Commonwealth of Massachusetts (Commonwealth) and created the new entity, the Massachusetts Department of Transportation (MassDOT), through enactment of Chapter 6C of Massachusetts General Law. MassDOT is governed by a five-member board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009. A new budgeted fund, the Commonwealth Transportation Fund, assumed most of the operations of the former Highway Fund in FY10. Legislation approved by the Governor in FY10 provides that the Commonwealth Transportation Fund will also receive the sales tax receipts (.385%) dedicated to transportation purposes, with a guaranteed annual payment of $275 million, which includes $100 million earmarked for costs including debt service on MassDOT debt, $160 million earmarked for the Massachusetts Bay Transit Authority (MBTA), and $15 million earmarked for the regional transit authorities. The reform was implemented merging four state agencies into the MassDOT: the Highway Department; Registry of Motor Vehicles; Massachusetts Aeronautics Commission; and the Executive Office of Transportation.

State Agencies and Authorities merged into Mass DOT

Commonwealth Departments and Agencies	Former Major Discrete Component Units	Former Non-Major Discrete Component Units
• Massachusetts Highway Department	• Massachusetts Turnpike Authority (MTA)	• Regional Transit Authorities (15 entities)
• Massachusetts Aeronautics Commission	• Massachusetts Bay Transportation Authority (MBTA)	• Route 3 North Transportation Improvement Association (R3N)
• Registry of Motor Vehicles		
• Executive Office of Transportation and Construction		

MassDOT also absorbed the former Massachusetts Turnpike Authority (MTA), the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. MassDOT has an office of planning and programming and four divisions including highways, mass transit, aeronautics and the registry of motor vehicles that share administrative functions such as human resources, financial management, information technology and planning. Each division is headed by an administrator appointed by the Secretary of MassDOT. The MBTA as well as the Regional Transit Authorities are now component units of MassDOT.

This entity has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law, as well as the Single State Audit. In this unique relationship all road and bridge assets of the Commonwealth and the MTA have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction, repair, improvement and replacement of these assets. Debt of the former MTA prior to consolidation into MassDOT became debt of MassDOT and is not Commonwealth debt; however, certain guarantees are in place from the Commonwealth should this former MTA debt default. The Commonwealth also retains the liability for pension and other post-employment benefit (OPEB) costs of the former Commonwealth employees transferred to this entity and has acquired these liabilities for the 1,200 employees and 730 retirees of the former MTA. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB liabilities, as well as to reimburse the Commonwealth for their employee health care costs, all of which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are appropriated by the legislature and controlled by the Executive Office of Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT. Accordingly, a truer picture of the Commonwealth will be achieved by looking at the primary government in combination with the financial activity of its discretely presented component units. The table below outlines over $8.9 billion in net assets transferred from the Commonwealth to MassDOT at its inception.

Effect of the Creation of MassDOT on Governmental Net Assets
(amounts in thousands)

Governmental net assets June 30, 2010 - prior to MassDOT transfers		$ (13,389,389)
Fund equity transfer	(504,739)	
Central Artery/Tunnel Project assets transfer	(6,983,458)	
Value of Central Artery/Tunnel Project assets payable to the MTA	6,983,458	
Other capital assets net of depreciation	(8,537,983)	
Workers' compensation liabilities	13,232	
Compensated absences liabilities	23,935	
Owner Controlled Insurance Program	21,600	
Value of net assets transferred to MassDOT		(8,983,955)
Governmental Net Assets June 30, 2010 - after MassDOT tranfers		$ (22,373,344)

Other liability and assets transferred to the Commonwealth include MTA pension liabilities assumed by the Commonwealth of $325 million, MTA pension assets of $189 million and MTA OPEB liabilities assumed by the Commonwealth of $127.8 million. MTA had established a trust to fund its OPEB liability. The trust has a current balance of $54.9 million. The trust has not transferred these assets to the Commonwealth so no offset to the liability is reflected in these statements.

Financial Highlights – Primary Commonwealth Government

Government–Wide Highlights

Net Assets – The liabilities of the Commonwealth exceeded its assets at the end of FY10 by almost $18.6 billion, which was a decrease of more than $10.3 billion in net assets during the fiscal year. The vast majority of this change relates to the creation of MassDOT as explained below.

Change in Statement of Net Assets
(amounts in thousands)

	Primary Government		
	Governmental Activities	Business Type Activities	Government Wide
Total net assets:			
Fiscal Year ending 2009	$ (12,153,655)	$ 3,930,142	$ (8,223,513)
Fiscal Year ending 2010	(22,373,344)	3,773,448	(18,599,896)
Change in net assets	(10,219,689)	(156,694)	(10,376,383)
Less MassDOT net asset transfers	(8,983,955)	-	(8,983,955)
Central Artery Assets	(6,983,458)	-	(6,983,458)
Assets Payable to the MTA	6,983,458	-	6,983,458
Net change	$ (1,235,734)	$ (156,694)	$ (1,392,428)

The creation of MassDOT is reflected as transfer out of government activities as it occurred, November 1, mid fiscal year, but is reflected as beginning balance adjustments in the component unit column on page 45, as the transfers were part of MassDOT's beginning balance at its creation. The table below shows how the transfers shown above affecting the government activities translates into beginning balance adjustments in the Component Unit financial statements.

The effect of MassDOT's creation on beginning component unit net assets is as follows (amounts in thousands):

Net assets, as previously reported	$ 11,288,684
Fund equity transfer	504,739
Central Artery and other capital asset transfers	15,521,441
Other	(249,525)
Net assets as stated	$ 27,065,339

As noted above, about $8.9 billion of this change is attributable to the MassDOT reorganization. Of the $18.6 billion deficit amount, "unrestricted net assets" is negative by almost $21.1 billion, and there is a nearly $886 million deficit attributable to the Commonwealth's investment in capital assets net of related debt. There are two primary reasons for negative unrestricted net assets: first, the Commonwealth has a liability of $7.4 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA); second, with the creation of MassDOT, virtually all highway and bridge assets of the Commonwealth totaling approximately $15.5 billion, net of depreciation, were transferred to the new entity. The Commonwealth, however, paid for the construction of these assets and retains a large amount of related debt, which will now be unrelated to any capital asset.

These negative amounts are offset by $1.7 billion in "restricted net assets".

During the fiscal year, approximately $447 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate $589 million were restricted for debt retirement.

Unrestricted Net Deficit – Factoring out the $8.9 billion negative impact of the MassDOT reorganization, the Commonwealth's unrestricted net deficit increased by approximately $1.4 billion in FY10. The $1.4 billion decrease in net assets is primarily attributable to increased net pension obligations of approximately $653 million and $804 million related to underfunding of retiree health care.

Overall, revenues of the Commonwealth increased over $3.2 billion or 7% in FY10 compared to FY09. Tax revenues increased by $535 million, or 3%, primarily the result of sales tax increases implemented during FY10 that raised the sales tax rate from 5.0% to 6.25% and eliminated the sales tax exemption for alcoholic beverages, both of which were effective August 1, 2009. The Massachusetts Department of Revenue estimates that, on a GAAP basis, those two provisions resulted in increased sales and use tax revenues of over $900 million in FY10; without those and other tax law changes, FY10 tax revenue would have declined as a result of the national recession.

Among non-tax revenue sources, operating grants and reimbursements increased by $1.9 billion, or 14%, in FY10, primarily due to $2.1 billion in increased federal funds to pay for the growth in unemployment insurance benefits during the recession. Charges for services increased by $513 million, or 5%, primarily the result of increased charges to beneficiaries under the state's group health insurance plan for current and retired state employees and higher tuition payments received by state colleges and the state university. Capital grants and contributions fell by $74 million, or 9%, and other revenues increased by $400 million, or 25%.

Total expenses increased by $1.1 billion, or approximately 2%, from FY09 to FY10, with the largest single increase being approximately $1.96 billion in spending growth on unemployment insurance benefits. This growth was offset by net spending reductions throughout other areas of state government. Health and Human Services spending decreased by approximately $1.3 billion due to reductions in Universal Health Care programs and other operating budget cuts, and Medicaid expenses dropped by nearly $165 million.

Net assets of the business–type activities showed a decrease of nearly $157 million, almost entirely due to the $562 million decrease in the Unemployment Compensation Trust Fund. The Trust borrowed over $387 million from the Federal Government to continue paying unemployment benefits. The Unemployment

Trust Fund deficit was offset by a net surplus of $406 million for Higher Education activity.

To maintain a balanced budget in the face of weak revenue growth in the first quarter of FY10 and downgraded revenue forecasts for the remainder of the fiscal year, the Governor authorized approximately $277 million in spending reductions across most executive branch agencies in October 2009, pursuant to Section 9C of Chapter 29 of the General Laws. Some of the proposed cuts were later restored, in part, as a result of the second revision to the tax revenue estimate in January, bringing the total 9C reductions to $228 million (by the end of the fiscal year the total reductions were reduced to $215 million). Other solutions used to offset the reduction in the original FY10 revenue estimate included the use of an additional $35.6 million in Stabilization Fund reserves, $126 million in anticipated departmental and other revenues, as well as $62 million in available federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on updated guidance provided by the federal government, the Commonwealth received $80 million in additional federal Medicaid reimbursements related to a change in the calculation of the state's Medicare "clawback" payments. The Secretary of Administration of Finance instructed the Comptroller to transfer $50 million from the General Fund back to the Stabilization Fund and use the remaining $30 million to support fiscal year 2010 expenditures.

Governmental Funds – Fund Balances – At June 30, 2010, the Commonwealth's governmental funds reported a combined ending fund balance of about $4.6 billion. Of the $4.6 billion:

- Nearly $4.0 billion represents an unreserved and undesignated fund balance. Governmental fund balances decreased by over $475 million, which included an equity transfer of $504 million to MassDOT.

- The MSBA's fund balance of approximately $1.5 billion is blended into the Commonwealth. Within this fund balance is over $1.4 billion in cash and restricted investments which were funded by bond proceeds in previous fiscal years, and other assets, less approximately $84 million in liabilities. Nearly $611 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals.

- The Governmental Funds reserved balances total over $594 million, all but $5.0 million of which is reserved for retirement of indebtedness, which is held in escrows related to refunding bonds and to pay grant anticipation notes.

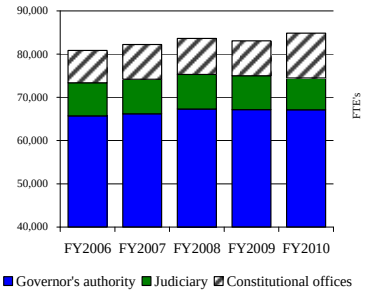
- Lottery revenues for FY10 remained unchanged from FY09 at approximately $4.6 billion. Prizes were approximately $3.6 billion, operating expenses and the mandated transfers to the governmental funds were almost $1 billion.

Other highlights of FY10 financial operations include:

- Tobacco settlement proceeds for the year were approximately $264 million, all of which were used to support current operations. This was a decrease of $41 million from the prior year due to one-time additional non-participating manufacturers settling under the master settlement agreement (MSA) received in FY09. Similar to last year, approximately $133 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY11. The MSA with the tobacco manufacturers estimates Commonwealth revenues for the first 25 years of the settlement to be approximately $7.6 billion. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. Approximately 79.9% of the estimated amounts shown in the MSA were received in FY10. The Commonwealth continued to receive Strategic Contribution Fund payments under the terms of the MSA in FY10. These additional payments are paid to lead states on a suit against tobacco manufacturers. The payments began in FY08 and will continue through FY17.

- During the fiscal year, the Commonwealth passed or agreed to terms to over approximately $85 million in bond authorizations and the de-authorizations of previously issued capital appropriations of approximately $69 million. The Commonwealth will determine the timing and extent of capital spending and bonding as part of its five year capital plan.

Full Time Equivalent Workforce Including Higher Education June 2006 – June 2010



The Commonwealth made other structural changes to the government operations in FY10. In addition to the reorganization of transportation agencies, the seven remaining county sheriffs were transferred to state government effective January 1, 2010. The sheriff departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with combined budgets of more than $200 million and almost 3,000 employees. Prior to January, these departments were part of county government; however, they received operating budgets as subsidies from the state. During the years 1997 through 2000, seven counties west and north of Boston were abolished, which resulted in seven sheriff departments becoming part of state government and other former county operations such as the Registries of Deeds being absorbed into active Commonwealth departments. With the exception of the former Suffolk County, the remaining six counties continue operations.

The government reorganizations discussed above affected the Commonwealth's staffing levels. The elimination of the MTA and the transfer of control of the Tobin Bridge from MassPort to MassDOT moved 1,320 employees from these entities to the state payroll system. The consolidation of seven county sheriffs into the Commonwealth transferred almost 3,000 employees from county to state government. These transfers were offset by a reduction of approximately 2,300 full time equivalent employees due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. The graphic to the left summarizes these FTE changes for FY10, as well as showing overall FTE changes for the past five fiscal years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are composed of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

Government–wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets*, which presents the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. The statements report the Commonwealth's net asset position and changes to those net assets. It can be inferred that an increase or decrease in the Commonwealth's net assets is one way to measure financial health as well as the trend of increases or decreases over time. But non-financial measures such as capital investments, changes in taxation, population, employment and economic conditions are also indicators of the overall health of any government.

Both the statements of net assets and the statement of activities have separate sections for three different categories of the Commonwealth's operations. These activities are Governmental Activities, Business-Type Activities and Discretely Presented Component Units. Governmental activities are where the Commonwealth's basic services are reported. Business-type activities are where fees are charged for a particular service. These are mainly the institutions of higher education and the unemployment insurance compensation system. The component units are separate legal entities that are included with this report due to the nature of their governance and financial relationship with the Commonwealth.

The government–wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Component Unit Financial Statements

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures. Only the most significant major funds are shown separately in the fund financial statements, with the remaining funds included in the aggregate.

Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government–wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. The three categories of funds are *Governmental Funds, Proprietary Funds and Fiduciary Funds.* Further

discussion of the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but the entities are independent of the core Commonwealth operations. Most operate similar to private-sector businesses.

Even though the MSBA is a component unit, the MSBA's operations have been judged by management in a similar fashion to a Commonwealth department due to MSBA's service to the Commonwealth. Therefore, its operations are reported as part of the governmental funds.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government–wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

The required supplementary information section includes budgetary comparison schedules for the General and Commonwealth Transportation Funds, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations compared with actual budgetary spending. Variance columns are also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures is provided. A schedule of pension funding progress is also included in this section.

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of almost $18.5 billion at the end of FY10. The *unrestricted net assets* are negative by over $21.2 billion. As explained previously, a substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth, and in particular the result of the transfer of assets to MassDOT in FY10. In FY10, MassDOT reports these capital assets on their financial statements, which are incorporated into the Commonwealth's financial statements similarly to other component units.

Major Long – Term Obligations for Assets of Political Subdivisions (amounts in thousands)

School construction grants payable……	$ 2,714,133
Massachusetts School Building Authority debt.	4,699,293
Outstanding bonds issued to fund the MBTA	155,380
Debt related to MassDOT assets	8,889,252
Effect on unrestricted net assets of items unique to the Commonwealth.....	$ 16,458,058

Another example of this type of arrangement is the MSBA. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax allocated to the MSBA. In FY10, the amount of MSBA's grants payable dropped by approximately $601 million due to grant payments made to municipalities in excess of additional waiting list projects and new programs. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement 39 the

authority's operations are reported within a governmental fund in this report and on the government–wide financial statements.

In addition, the Commonwealth holds debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the MBTA, a change enacted in FY00. As of June 30, 2010, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately $155 million, inclusive of unamortized bond premiums.

Exclusive of fiduciary assets, the Commonwealth's current cash and investments decreased by over $778 million between June 30, 2009 and June 30, 2010. To finance its cash flow and bridge the time gap between current year receipts and current year major expenses such as the payment of local aid, the Commonwealth issued commercial paper in FY10, along with revenue anticipation notes. Over $1.5 billion in short-term commercial paper and revenue anticipation notes were sold and redeemed during the fiscal year.

Non-current assets increased by over $277 million. The increase is due to an increase in the restricted cash and investments of the higher education entities, offset by more than $218 million decrease in the restricted assets of the Unemployment Compensation Trust Fund. The capital assets decreased by more than $14.6 billion. The decrease is attributable to a nearly $15.5 billion in capital assets transferred to MassDOT.

Nearly $7.7 billion of the Commonwealth's net assets reflect the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The bulk of the Commonwealth's net deficit is due to long-term liabilities which financed non-Commonwealth capital assets. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. As of June 30, 2010, the Commonwealth's current assets were almost $9.5 billion, while its current liabilities were over $7.7 billion. Restricted net assets represent resources that are subject to external constraints.

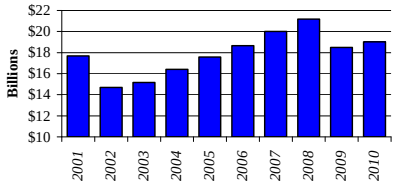
The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business–type activities.

Net Assets as of June 30, 2010 and 2009
(in millions of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Current assets	$ 7,949	$ 8,938	$ 1,521	$ 1,310	$ 9,470	$ 10,248
Non-capital non-current assets	3,260	3,203	2,640	2,420	5,900	5,623
Capital assets	3,999	18,994	3,677	3,288	7,676	22,282
Deferred outflows of derivative investments	444	-	66	-	510	-
Total assets and deferred outflows	15,652	31,135	7,904	7,018	23,556	38,153
Current liabilities	6,842	7,170	880	944	7,722	8,114
Long term liabilities	31,184	36,119	3,252	2,144	34,436	38,263
Total liabilities	38,026	43,289	4,132	3,088	42,157	46,377
Net assets:						
Invested in capital assets, net of related debt	(886)	190	1,767	1,699	882	1,889
Restricted	594	609	1,149	1,609	1,743	2,218
Unresticted	(22,082)	(12,953)	857	622	(21,225)	(12,331)
Total net assets (deficits)	$ (22,374)	$ (12,154)	$ 3,773	$ 3,930	$ (18,600)	$ (8,224)

Changes in Net Assets

Revenue from Taxation – 2001-2010



As noted earlier, the Commonwealth's net assets declined by over $10.3 billion between FY09 and FY10, with $8.9 billion of that decline due to the impact of the transfer of assets to MassDOT. Approximately 39% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. General revenues increased by $917 million or 4%, with tax revenue increasing by nearly $535 million, or 3%. The tax revenue increase is attributable to growth of $870 million in the sales tax, due entirely to an increase in the sales tax rate and elimination of the sales tax exemption for alcoholic beverages that generated over $900 million on a GAAP basis in FY10, offset by a decrease of $224 million in income tax payments, due primarily to a decline in taxes on capital gains and other investment income, and a $111 million drop in other forms of taxes.

Because of the American Recovery and Reinvestment Act (ARRA) and other federal grants (primarily for unemployment insurance benefits), operating and capital grant contributions increased $1.8 billion, or 14% in FY10, offsetting the drop in other operating revenues. As of June 30th, ARRA funds received by the Commonwealth during FY10 were almost of $2.8 billion, of which Federal Medicaid Assistance Program (FMAP) receipts from ARRA were in excess of $1.3 billion and $383 million was in the form of State Fiscal Stabilization Fund (SFSF) funds used for local educational aid for municipalities and $96 million for the Temporary Assistance for Needy Families (TANF) Program.

American Recovery and Reinvestment Act Funds Drawn in FY10 – FY09 (amounts in thousands)

Funding Category	FY2010	FY2009
Agriculture	$ 9,332	$ 249
Department of Defense	8,885	-
Housing and Uban Development	29,743	-
Justice	7,297	12,589
Labor	472,714	107,093
Transportation	74,422	148
US Treasury	40,354	-
National Institute for Arts & Humanities	339	-
National Science Foundation	66	-
EPA	10,431	-
Energy	69,193	-
Education	606,988	416,196
Health and Human Services	1,452,408	888,187
Homeland Security	670	-
Total by funding category	$ 2,782,843	$ 1,424,462
Total budgeted funds	$ 1,420,705	$ 886,160
Total non-budgeted special revenue funds *	857,430	438,065
Total capital projects funds	-	-
Total agency funds	4,207	-
Total expendable trust funds **	426,079	100,238
Total Massachusetts Department of Transportation.	74,422	-
Total by fund type	$ 2,782,843	$ 1,424,462

* Resulted in expenditure reduction in the General Fund
** Not included in this report

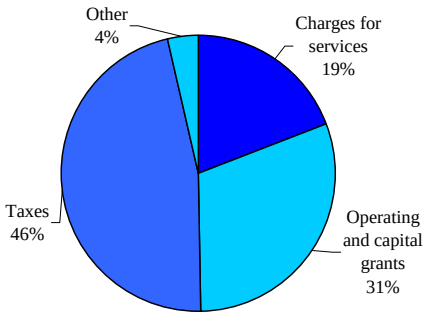
Additional ARRA amounts received were for labor and workforce development and transportation and public works. However, in some cases, these increases in funding also triggered required increases in spending, particularly in unemployment insurance compensation payments, which rose by over $1.96 billion between FY09 and FY10.

Total charges for services increased by more than $513 million, or 5.3%, due to a $108 million increase in charges at the University of Massachusetts, an increase of over $53 million at the state and community colleges and an increase in Health and Human Services charges of over $276 million related to health care reform. Charges for services also increased by $27 million in Public Safety and Homeland Security and group health insurance charges for services rose by approximately $108 million. Restricted net assets decreased by over $475 million from FY09 due to more than $573 million drop in the balance of unemployment compensation restricted net assets, offset by an increase in restricted net assets for the higher education institutions.

Changes in Net Assets during the Fiscal Years Ended June 30, 2010 and 2009 (in millions of dollars except percentages)

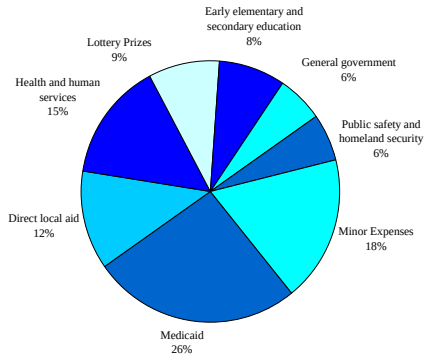
	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010 Distribution	June 30, 2009 Distribution	'10 to '09 % Change
Revenues									
Program Revenues:									
Charges for services	$ 7,756	$ 7,461	$ 3,972	$ 3,754	$ 11,728	$ 11,215	24%	24%	5%
Operating grants and contributions	11,645	12,059	4,020	1,721	15,665	13,780	32%	30%	14%
Capital grants and contributions	779	853	-	-	779	853	2%	2%	-9%
General Revenues:									
Taxes	19,034	18,499	-	-	19,034	18,499	39%	40%	3%
Other	1,476	1,489	553	140	2,029	1,629	4%	4%	25%
Total Revenues	40,690	40,361	8,545	5,615	49,235	45,976	100%	100%	7%
Expenses									
Medicaid	10,678	10,843	-	-	10,678	10,843	21%	22%	-2%
Direct local aid	5,030	5,210	-	-	5,030	5,210	10%	11%	-3%
Health and human services	6,119	7,452	-	-	6,119	7,452	12%	15%	-18%
Lottery	3,649	3,693	-	-	3,649	3,693	7%	7%	-1%
Higher education	-	-	4,119	3,884	4,119	3,884	8%	8%	6%
Early elementary and secondary education	3,395	3,210	-	-	3,395	3,210	7%	6%	6%
Unemployment compensation	-	-	5,436	3,475	5,436	3,475	11%	7%	56%
Other	12,190	11,703	-	-	12,190	11,703	25%	24%	4%
Total Expenses	41,061	42,111	9,555	7,359	50,616	49,470	100%	100%	2%
Excess / (Deficiency) before transfers	(371)	(1,750)	(1,010)	(1,744)	(1,381)	(3,494)			
Loss on sale of capital assets	-	-	(12)	(12)	(12)	(12)			
Transfers	(865)	(1,071)	865	1,071	-	-			
Transfer to \ from MassDOT	(8,984)	-	-	-	(8,984)	-			
Change in Net assets (deficits)	(10,220)	(2,821)	(157)	(685)	(10,376)	(3,506)			
Net assets - beginning, as restated	(12,154)	(9,162)	3,930	4,597	(8,224)	(4,565)			
Restatement - change in accounting principle	-	(171)	-	18	-	(153)			
Net assets (deficits)- ending	$ (22,374)	$ (12,154)	$ 3,773	$ 3,930	$ (18,600)	$ (8,224)			

Revenue–Governmental Activities
Fiscal Year Ending June 30, 2010



The largest category of tax revenue is income taxes. Of the more than $19.0 billion in tax revenue within governmental activities, $10.2 billion was from income taxes, $4.7 billion was from sales taxes, $1.9 billion was from corporate taxes, $658 million was from motor fuels taxes and over $1.5 billion was from other forms of taxation. The largest operating grants are the federal Medicaid subsidies. Other operating grants increased this year due to ARRA. The largest capital grants are for transportation, namely grants for highway construction. Finally, Lottery revenues make up approximately 60% of the Commonwealth's governmental charges for services. Lottery revenues decreased this year by approximately $17 million. The decrease in lottery sales is mostly attributable to a decrease in instant game sales of over $53 million from FY09, which was partly off set by new Powerball Game sales of over $34 million.

Major Expenses–Governmental Activities
Fiscal Year Ending June 30, 2010



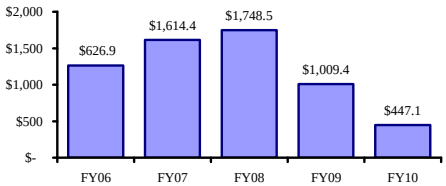
Medicaid represents 26% of all the Commonwealth's governmental expenses, exclusive of business–type activities. However, it must be noted that because of ARRA, more than half of the Medicaid expenses are subsidized in the form of federal reimbursements. These subsidies are noted herein in the "operating grants and contributions" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth.

Other than noted above, large expenditures for governmental activities include payments of pensions, education and higher education funding from the General Fund, public safety and other health and human service costs. Pre-K through higher education costs funded not directly from the institutions totaled approximately $3.4 billion, post-employment benefit costs were $1.9 billion, public safety and homeland security costs were approximately $1.9 billion and other health and human services costs were approximately $6.1 billion.

Business–type activities are functions that equate to activities of a private enterprise. In the Commonwealth, the institutions of higher education are deemed to be business-type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business–type activity.

Business–Type Activities

Unemployment Compensation Fund
Net Assets
Fiscal Years 2006 - 2010
(*Amounts in Millions)*

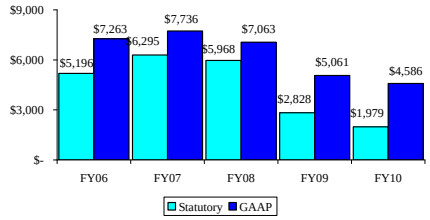


Business-type activities decreased the Commonwealth's net assets by over $156 million. While operating revenue increased by approximately $2.3 billion in FY10, unemployment insurance benefit claims increased by almost $2.0 billion, resulting in an approximately $562 million decrease in the Commonwealth's Unemployment Compensation Trust Fund net assets. In order to support the high level of unemployment benefit claims, the trust fund borrowed over $387 million from the Federal government. Net assets of the schools of higher education increased by nearly $405 million, largely due to increases in net tuition and fee revenue (by nearly 10%). Miscellaneous revenues, largely ancillary higher education sales and services and federal grants, grew by nearly 10%. Overall, revenues of business type activities grew by over 52%.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

Governmental Funds

Governmental Fund Balance Statutory vs. GAAP
(*Amounts in Millions)*



As noted earlier, the Commonwealth uses fund accounting to demonstrate inter-period equity and the extent to which current resources are financing the full cost of services that citizens are receiving. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Due to the nature of the significant relationship between the Commonwealth and the MSBA, the MSBA's operations and results are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY10 added $652 million in revenues. MSBA's fund balance added approximately $139 million to the Commonwealth's governmental fund balance at the end of the year after including $751 million of bond proceeds as an additional funding source.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and information warehouse are combined with reports from each of the Commonwealth departments to record governmental fund perspective departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level.

The major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective are accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue.

Governmental Fund Operations - GAAP Basis - Fund Perspective
(Amounts in millions)

	FY10	FY09	FY08	FY07	FY06
Beginning fund balances …….....	$ 5,061.3	$ 7,062.7	$ 7,735.9	$ 7,263.2	$ 5,048.6
Reclassifications……..……	-	-	-	5.0	-
Revenues and other financing sources….....	49,853.1	49,788.0	50,136.8	49,402.2	47,189.9
Expenditures and other financing uses.....	50,328.7	51,789.4	50,810.0	48,934.5	44,975.3
Excess / (deficiency)….....	(475.6)	(2,001.4)	(673.2)	472.7	2,214.6
Ending fund balances	$ 4,585.7	$ 5,061.3	$ 7,062.7	$ 7,735.9	$ 7,263.2

The increase in revenues in FY10 from FY09 is attributable to an increase of nearly $637 million in governmental tax revenues due primarily to an increase in the sales tax rate effective August 1, 2009, and an increase of nearly $61 million in federal reimbursements, mostly due to ARRA and other draws for various health and human services programs. Fees and investment earnings combined grew by over $161 million, but federal grants revenues decreased by over $539 million. Coupled with other financing sources, largely from bonds and transfers, the overall revenue increase was nearly $65 million, or approximately 0.1%.

During FY10, spending cuts were implemented to maintain a balanced budget. Governmental fund expenditures decreased by $1.5 billion or 2.8%, led by an approximate $1.1 billion decrease in Universal Health Care Programs, the largest of which were a $421 million reduction in a legislatively authorized transfer from the General Fund and a $298 million decrease due to a delay in Medical Assistance Trust Fund State and Federal waiver approvals. In addition, during FY09 the Commonwealth made a $264 million payment for a cross-over refunding of Grant Anticipation Notes, creating a decrease in FY10 comparative expenditures. Lottery revenues and expenditures remained almost the same as FY09. Within the Lottery, revenues outpaced spending by about $988 million. The other minor governmental funds also decreased in fund balance, largely due to the increased need for programs and services. Universal Health Care spending exceeded revenues by more than $22 million for the year, due to the continuing rise in health care costs. The Highway Capital Projects Fund finances MassDOT expenditures related to construction and improvement of the Commonwealth's road and bridge infrastructure. The expenditures are financed by debt that is issued by the Commonwealth while the assets are owned and maintained by MassDOT. The deficit in this fund is due to a timing difference between when the Commonwealth accrues the expenses and when the Commonwealth finances the related cash outlay. The Federal Grants fund is used to manage categorical grants funded in their entirety by the federal government. This fund has seen a significant increase in activity as a result of the ARRA. It is anticipated that expenditures and related federal revenues will begin to return to historic levels in FY11. Most other minor funds had slight increases or decreases in fund balances for the fiscal year.

As of the end of FY10, the Commonwealth's governmental funds reported combined ending fund balances of almost $4.6 billion, a decrease of over $476 million from the previous year. However, of the approximate $4.5 billion, the following amounts are reserved or committed:

Governmental Funds - Reserves of Fund Balances
(Amounts in millions)

	2010		2009		Change
Reserved:					
Retirement of indebtedness	$ 589.5		$ 573.3		$ 16.2
Central Artery					
Workers Compensation and					
General liability insurance reserve	-		52.2		(52.2)
Permanent trust funds	5.0	*	-	*	5.0
Total reserved balances	**594.5**		**625.5**		**(31.0)**
Total undesignated balances	**3,991.2**		**4,435.8**		**(444.6)**
Total fund balances	**$ 4,585.7**		**$ 5,061.3**		**$ (475.6)**

* Reclass in FY2010 from undesignated to reserved

Undesignated and reserved balances declined by over $475 million mainly due to spending that exceeded revenues as well as to an equity transfer of $504 million in undesignated fund balances from the Governmental Funds to MassDOT. Also during FY10, the $52.2 million reserve for Central Artery Workers' Compensation and General Liability was transferred to MassDOT. Capital project fund balances showed a decline entirely due to the timing of bond sales.

The amounts reserved for retirement of indebtedness represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY11.

During FY10 the General and Commonwealth Transportation funds (the latter the successor to the Highway Fund, which was eliminated as part of the Commonwealth's reform of the state transportation system) were the primary operating funds of the Commonwealth. At the end of FY10, the fund balance of the General Fund was over $1.8 billion. Of this amount, nearly $670 million represents the Commonwealth's Stabilization Fund. Almost $102 million was also for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the General Fund, which is higher than FY09's continuing appropriations amount of $53 million.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY10, the MSBA received approximately $611 million of dedicated sales tax revenues.

Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for-profit businesses. Proprietary fund financial statements provide the same type of information as the government–wide financial statements, only in greater detail.

As discussed above, the business-type activities decreased the Commonwealth's net assets by approximately $157 million.

BUDGETARY HIGHLIGHTS

The General Appropriation Act (GAA) authorized approximately $26.5 billion in spending, exclusive of approximately $125.5 million in FY09 spending authorized to be continued into FY10 as part of final FY09 supplemental budgets.

The budget, as enacted by the Legislature, was based on a FY10 tax revenue estimate of $18.879 billion, which reflected the FY10 consensus tax estimate of $17.989 billion adjusted for the impact of tax law changes enacted as part of the FY10 budget. This estimate was initially revised downward by $600 million to $18.279 billion on October 15, 2009, but was subsequently revised upward to $18.460 billion on January 7, 2010, as revenues began to perform above benchmark.

To cover the projected $600 million tax revenue shortfall reflected in the October 15th revised tax estimate, as well as the additional spending deficits that were anticipated at that time, the Governor authorized approximately $277 million in spending reductions across most executive branch agencies in October 2009, pursuant to Section 9C of Chapter 29 of the General Laws. Some of these proposed cuts were later restored, in part, as a result of the second revision to the tax revenue estimate in January bringing the total 9C reductions to $228 million (by the end of the fiscal year the total reductions were reduced to $215 million). Other solutions used to offset the reduction in the consensus revenue estimate included the use of an additional $35.6 million in Stabilization Fund reserves, $126 million in anticipated departmental and other revenues, as well as $62 million in available federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on updated guidance provided by the federal

government, the Commonwealth received $80 million in additional federal Medicaid reimbursements related to a change in the calculation of the state's Medicare "clawback" payments. The Secretary of Administration of Finance instructed the Comptroller to transfer $50 million from the General Fund back to the Stabilization Fund and use the remaining $30 million to support fiscal year 2010 expenditures.

Supplemental budgets during the year authorized approximately $665.4 million in appropriations. Subsequent to year end, an additional supplemental budget was enacted totaling approximately $73 million in spending related to FY10. The year's significant supplemental appropriation transfer activity included approximately:

- $32.9 million for additional private counsel compensation;
- $15.2 million for additional health insurance costs for members of the Group Insurance Commission;
- $7.4 million for additional snow and ice removal costs;
- $143.6 million to support additional costs related to the MassHealth Managed Care Program;
- $111.7 million for additional costs related to MassHealth Fee for Service;
- $114.1 million for additional MassHealth senior care related costs;
- $60.1 million for additional Family Shelter Programs.

A total of 130 budgetary appropriations were supplemented during the year.

On a statutory (not GAAP) basis, budgeted expenditures and other uses, including transfers to non-budgeted funds, decreased by $183 million from FY09. However, included in this amount is an increase in programs and services of $279 million. The majority of the increase in program and service costs is due to the increase in Medicaid costs as measured on a statutory basis. Spending for direct local aid increased by $114 million due to an increase in Chapter 70 education funding.

Debt service decreased by $31 million. Post-employment benefit costs increased by $82 million. Inter-fund transfers to non-budgeted funds decreased by $864 million due to re-classification of state retiree benefit expenditures and a decrease in transfers to the Universal Health Care Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to approximately $14.0 billion, with accumulated depreciation of approximately $6.3 billion, leaving a net book value of almost $7.6 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. The investments in capital assets noted above are net of capital assets transferred to MassDOT as part of the Commonwealth's Transportation Reform. During the fiscal year, effective November 1, 2009, MassDOT received from the Commonwealth, $22.4 billion of capital assets, with accumulated depreciation of over $6.8 billion, leaving a net book value of over $15.5 billion. The majority of the assets transferred included all

the roads and bridge infrastructure assets of the Commonwealth, including Central Artery/Tunnel assets.

The total increase in the Commonwealth's investment in capital assets, net of transfers to MassDOT, disposals, and changes in accumulated depreciation from 2009 to 2010 was approximately $276 million, largely in infrastructure and buildings shifting partially from construction in process. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY10 amounts for business-type activities include amounts for the foundations established on behalf of the institutions of higher education.

Capital Assets at Year - End
(net of depreciation)
(amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land, including Central Artery	$ 892,380	$ 1,179,385	$ 101,249	$ 83,480	$ 993,629	$ 1,262,865
Historical treasures	-	-	863	863	863	863
Construction in process	452,988	2,174,559	462,301	399,657	915,289	2,574,216
Buildings	2,286,941	2,124,394	2,715,809	2,398,736	5,002,750	4,523,130
Machinery and equipment	301,673	312,450	286,722	301,127	588,395	613,577
Infrastructure, including Central Artery	64,677	13,202,952	-	-	64,677	13,202,952
Library collections	-	-	110,042	104,180	110,042	104,180
Total	**$ 3,998,659**	**$ 18,993,740**	**$ 3,676,986**	**$ 3,288,043**	**$ 7,675,645**	**$ 22,281,783**

Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

Exclusive of MSBA, the Commonwealth issued approximately $2.2 billion in new debt in FY10. Twenty percent of the Commonwealth's $17.8 billion in general obligation debt outstanding as of June 30, 2010 has been issued as variable rate bonds. Included in this variable rate debt was approximately $402 million in auction rate securities (about 2% of all general obligation debt) as of June 30, 2010.

Approximately $1.1 billion in bond sales were either for general government purposes or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. The remaining new issues were for highway and other infrastructure construction (approximately $574 million) or for strictly municipal purposes (approximately $5.3 million). Included in bond sales are issuances of taxable debt of approximately $1.4 billion to finance activities that were financed under the federally-subsidized Build America Bonds (BABS) Program.

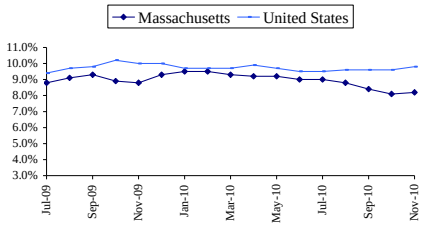
Following is a table which details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

Long - Term Debt Obligations at Year - End
(net of unamortized premiums, bond issuance costs, deferred losses on refundings and discounts)
(amounts in thousands)

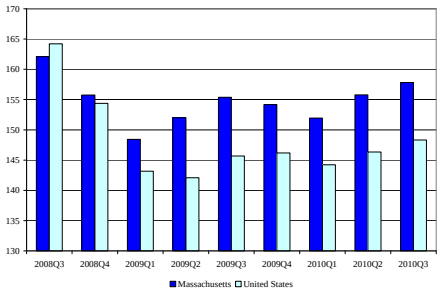
	Governmental Activities		Business - type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	$ 17,682,517	$ 17,042,204	$ -	$ -	$ 17,682,517	$ 17,042,204
Special obligation bonds (excluding GANs)	1,046,523	1,088,150	-	-	1,046,523	1,088,150
Revenue obligation bonds	-	-	2,699,988	2,103,675	2,699,988	2,103,675
Grant anticipation notes	997,467	1,134,215	-	-	997,467	1,134,215
Subtotal	19,726,507	19,264,569	2,699,988	2,103,675	22,426,495	21,368,244
Massachusetts School Building Authority	4,488,535	3,830,250	-	-	4,488,535	3,830,250
Total	**$ 24,215,042**	**$ 23,094,819**	**$ 2,699,988**	**$ 2,103,675**	**$ 26,915,030**	**$ 25,198,494**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Monthly Unemployment Rate
July 2009 – November 2010



Massachusetts and National Home Values – 2008Q3 – 2010Q3
Case – Schiller Index
January 2000 = 100



In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital market restructuring that occurred starting in September 2009. Rates of economic decline have been sharp as the nation's gross domestic product has fallen and unemployment has hit the highest levels in decades. However, some indicators have seemingly bottomed. The Dow Jones Industrial Average, which some say is an indicator of future economic expectations, has risen from a low of 6,547 in March of 2009 to over 11,500 in December 2010, though this is still well below the 14,200 historical high of three years ago. Housing values also appear to have started to rise again after hitting lows in March 2009, though they stagnated towards the end of the calendar year 2010, as some of those rises may have been attributable to tax credits available in ARRA as well as other stimulus measures. Some economists believe unemployment will remain relatively high in the near future.

Massachusetts' economy has outperformed the nation's economy as a whole during and following the most recent recession. Per capita net income rose by over 4% in calendar year 2009. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2010, but since then has declined, and in November 2010 stood at 8.2%. This decline is greater than in the nation as a whole, where unemployment rose from 5.8% in July 2008 to a high of 10.1% in October 2009 (a rate that has not been seen since 1983), and has declined by only three-tenths of a percentage point to 9.8% as of November 2010. Population growth in the Commonwealth, which during the 1990s and most of the 2000s was lower than in the nation as a whole, was only slightly slower than in the U.S. in calendar years 2008 and 2009, probably due to the fact the state economy has performed better than the national economy during the most recent recession.

The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England.

The Commonwealth's economy remains diversified, but its strongest component is its knowledge–based technology and service industries. The Commonwealth is home to nineteen S&P 500 companies, among them seven Fortune 500 headquarters.

According to the United States Patent Office, the Commonwealth is fifth in the nation in patents per capita, only slightly behind California and Washington. Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the US Census Bureau's, 2009 American Community Survey, estimated that 37.8% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 27.5% for the United States as a whole. In the same survey, 88.4% of residents over age 25 at least had a high school diploma or general education equivalent. In primary education, the National Assessment of Education Progress continues to rank Massachusetts first in 4th and 8th grade mathematics and reading, third in writing and fourth and sixth in science in grades 4 and 8, respectively. This shows that Massachusetts school children are consistently among the best educated in the nation.

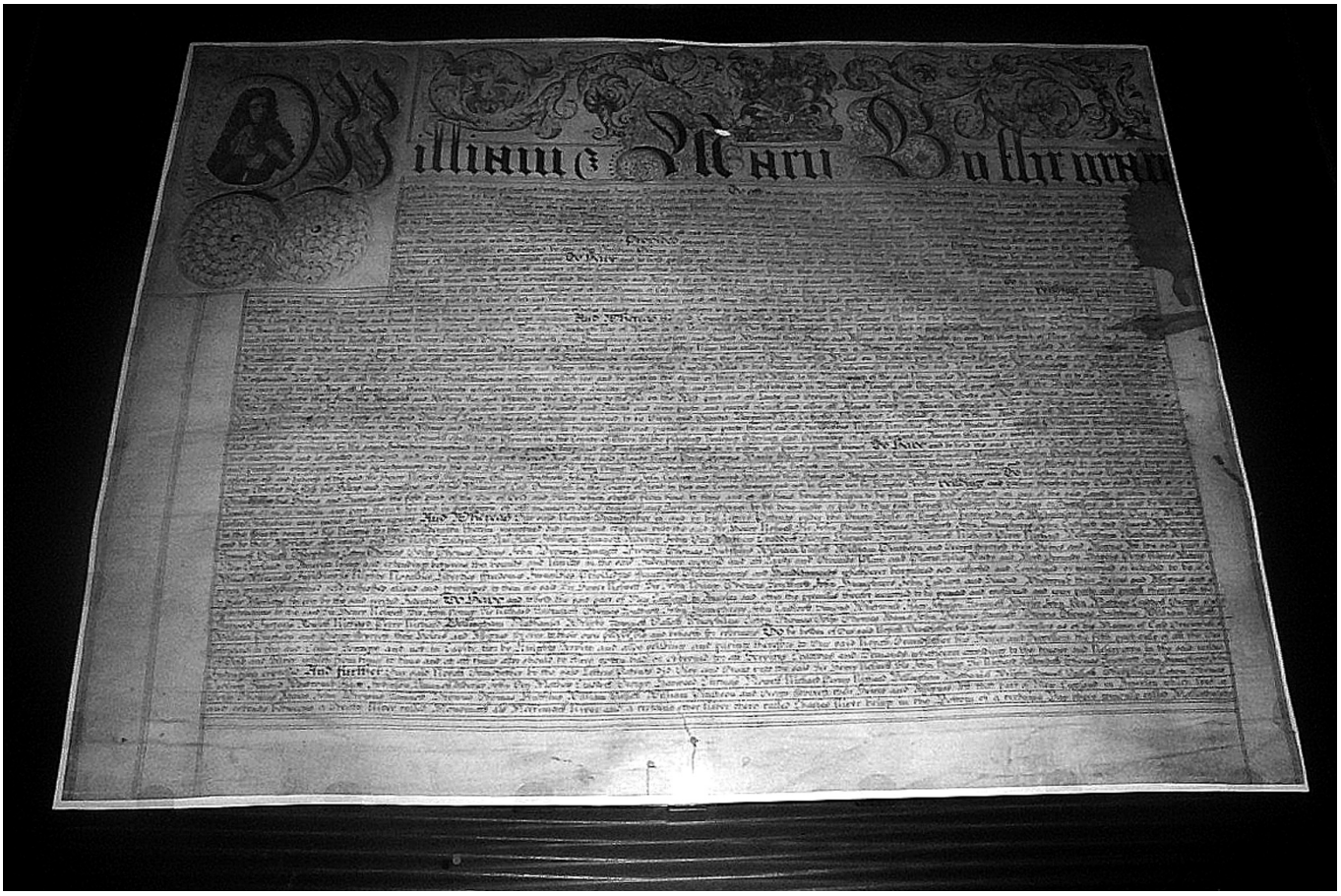
Because of the recession, inflation remained in check through FY10. The Boston metropolitan statistical area consumer price index (which includes portions of Connecticut, Maine and New Hampshire, as well as the Commonwealth) increased by 1.3% from July 2009 to July 2010, after falling by 3.4% between July 2008 and July 2009. During the period from July 2009 to July 2010, energy prices rose 6.7%, food and beverages prices rose 1.6%, housing prices dropped 1.2% and transportation prices increased by 7.3%. Medical care prices rose 4.2%, clothing costs 5.7%, recreational costs 1.2% and education costs 1.3%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances and accountability for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to comptroller.info@state.ma.us or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: http://www.mass.gov/osc/reports/reports.htm.

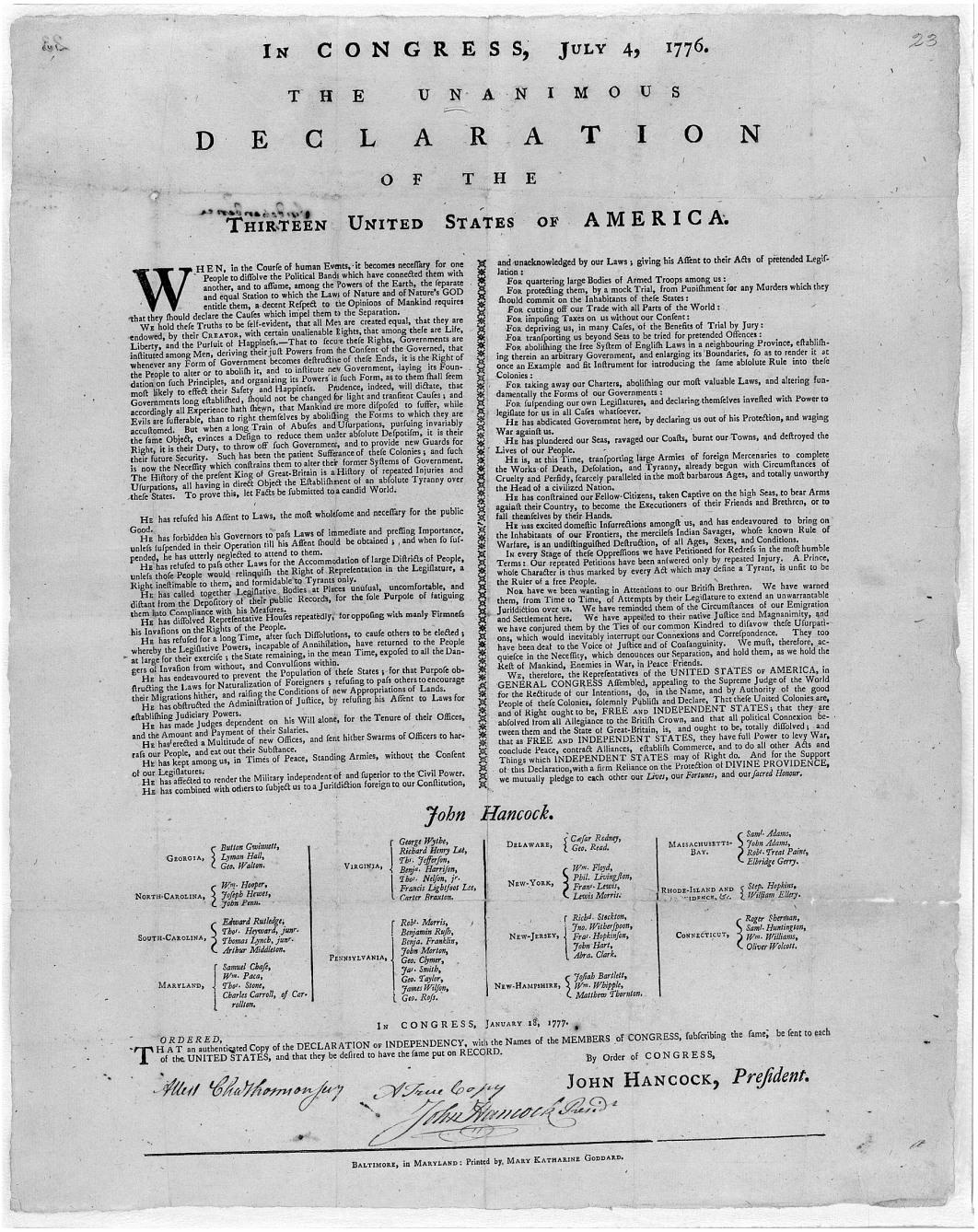
Charter of the Province of the Massachusetts Bay, 1691

King Charles II revoked the colonial charter in 1684. Nearly fifteen years later, following the Glorious Revolution in England, King William III and Queen Mary granted a new charter to Massachusetts. Increase Mather, an influential Puritan, traveled to London. There he lobbied intensively to either revive the earlier colonial charter or obtain a royal charter that would be favorable to Massachusetts. Organized as a royal province with an appointed governor, Massachusetts Bay now included the territories of the former Plymouth Colony, Maine, and the Cape Islands. Even Nova Scotia was included for a few years. The William and Mary charter remained the frame of government until 1774. After Massachusetts became an independent state in 1776, the government continued with the same basic structure as under the charter.



Basic Financial Statements

Government-wide Financial Statements
Statement of Net Assets
Statement of Activities



IN CONGRESS, JULY 4, 1776.

THE UNANIMOUS

DECLARATION

OF THE

THIRTEEN UNITED STATES OF AMERICA.

WHEN, in the Course of human Events, it becomes neceſſary for one People to diſſolve the Political Bands which have connected them with another, and to aſſume, among the Powers of the Earth, the ſeparate and equal Station to which the Laws of Nature and of Nature's GOD entitle them, a decent Reſpect to the Opinions of Mankind requires that they ſhould declare the Cauſes which impel them to the Separation.

We hold theſe Truths to be ſelf-evident, that all Men are created equal, that they are endowed, by their CREATOR, with certain unalienable Rights, that among theſe are Life, Liberty, and the Purſuit of Happineſs.—That to ſecure theſe Rights, Governments are inſtituted among Men, deriving their juſt Powers from the Conſent of the Governed, that whenever any Form of Government becomes deſtructive of theſe Ends, it is the Right of the People to alter or to aboliſh it, and to inſtitute new Government, laying its Foundation on ſuch Principles, and organizing its Powers in ſuch Form, as to them ſhall ſeem moſt likely to effect their Safety and Happineſs. Prudence, indeed, will dictate, that Governments long eſtabliſhed, ſhould not be changed for light and tranſient Cauſes; and accordingly all Experience hath ſhewn, that Mankind are more diſpoſed to ſuffer, while Evils are ſufferable, than to right themſelves by aboliſhing the Forms to which they are accuſtomed. But when a long Train of Abuſes and Uſurpations, purſuing invariably the ſame Object, evinces a Deſign to reduce them under abſolute Deſpotiſm, it is their Right, it is their Duty, to throw off ſuch Government, and to provide new Guards for their future Security. Such has been the patient Sufferance of theſe Colonies; and ſuch is now the Neceſſity which conſtrains them to alter their former Syſtems of Government. The Hiſtory of the preſent King of Great-Britain is a Hiſtory of repeated Injuries and Uſurpations, all having in direct Object the Eſtabliſhment of an abſolute Tyranny over theſe States. To prove this, let Facts be ſubmitted to a candid World.

He has refuſed his Aſſent to Laws, the moſt wholeſome and neceſſary for the public Good.

He has forbidden his Governors to paſs Laws of immediate and preſſing Importance, unleſs ſuſpended in their Operation till his Aſſent ſhould be obtained; and when ſo ſuſpended, he has utterly neglected to attend to them.

He has refuſed to paſs other Laws for the Accommodation of large Diſtricts of People, unleſs thoſe People would relinquiſh the Right of Repreſentation in the Legiſlature, a Right ineſtimable to them, and formidable to Tyrants only.

He has called together Legiſlative Bodies at Places unuſual, uncomfortable, and diſtant from the Depoſitory of their public Records, for the ſole Purpoſe of fatiguing them into Compliance with his Meaſures.

He has diſſolved Repreſentative Houſes repeatedly, for oppoſing with manly Firmneſs his Invaſions on the Rights of the People.

He has refuſed for a long Time, after ſuch Diſſolutions, to cauſe others to be elected; whereby the Legiſlative Powers, incapable of Annihilation, have returned to the People at large for their exerciſe; the State remaining, in the mean Time, expoſed to all the Dangers of Invaſion from without, and Convulſions within.

He has endeavoured to prevent the Population of theſe States; for that Purpoſe obſtructing the Laws for Naturalization of Foreigners; refuſing to paſs others to encourage their Migrations hither, and raiſing the Conditions of new Appropriations of Lands.

He has obſtructed the Adminiſtration of Juſtice, by refuſing his Aſſent to Laws for eſtabliſhing Judiciary Powers.

He has made Judges dependent on his Will alone, for the Tenure of their Offices, and the Amount and Payment of their Salaries.

He has erected a Multitude of new Offices, and ſent hither Swarms of Officers to harraſs our People, and eat out their Subſtance.

He has kept among us, in Times of Peace, Standing Armies, without the Conſent of our Legiſlatures.

He has affected to render the Military independent of and ſuperior to the Civil Power.

He has combined with others to ſubject us to a Juriſdiction foreign to our Conſtitution, and unacknowledged by our Laws; giving his Aſſent to their Acts of pretended Legiſlation:

For quartering large Bodies of Armed Troops among us:

For protecting them, by a mock Trial, from Puniſhment for any Murders which they ſhould commit on the Inhabitants of theſe States:

For cutting off our Trade with all Parts of the World:

For impoſing Taxes on us without our Conſent:

For depriving us, in many Caſes, of the Benefits of Trial by Jury:

For tranſporting us beyond Seas to be tried for pretended Offences:

For aboliſhing the free Syſtem of Engliſh Laws in a neighbouring Province, eſtabliſhing therein an arbitrary Government, and enlarging its Boundaries, ſo as to render it at once an Example and fit Inſtrument for introducing the ſame abſolute Rule into theſe Colonies:

For taking away our Charters, aboliſhing our moſt valuable Laws, and altering fundamentally the Forms of our Governments:

For ſuſpending our own Legiſlatures, and declaring themſelves inveſted with Power to legiſlate for us in all Caſes whatſoever.

He has abdicated Government here, by declaring us out of his Protection, and waging War againſt us.

He has plundered our Seas, ravaged our Coaſts, burnt our Towns, and deſtroyed the Lives of our People.

He is, at this Time, tranſporting large Armies of foreign Mercenaries to complete the Works of Death, Deſolation, and Tyranny, already begun with Circumſtances of Cruelty and Perfidy, ſcarcely paralleled in the moſt barbarous Ages, and totally unworthy the Head of a civilized Nation.

He has conſtrained our Fellow-Citizens, taken Captive on the high Seas, to bear Arms againſt their Country, to become the Executioners of their Friends and Brethren, or to fall themſelves by their Hands.

He has excited domeſtic Inſurrections amongſt us, and has endeavoured to bring on the Inhabitants of our Frontiers, the mercileſs Indian Savages, whoſe known Rule of Warfare, is an undiſtinguiſhed Deſtruction, of all Ages, Sexes, and Conditions.

In every Stage of theſe Oppreſſions we have Petitioned for Redreſs in the moſt humble Terms: Our repeated Petitions have been anſwered only by repeated Injury. A Prince, whoſe Character is thus marked by every Act which may define a Tyrant, is unfit to be the Ruler of a free People.

NOR have we been wanting in Attentions to our Britiſh Brethren. We have warned them, from Time to Time, of Attempts by their Legiſlature to extend an unwarrantable Juriſdiction over us. We have reminded them of the Circumſtances of our Emigration and Settlement here. We have appealed to their native Juſtice and Magnanimity, and we have conjured them by the Ties of our common Kindred to diſavow theſe Uſurpations, which would inevitably interrupt our Connexions and Correſpondence. They too have been deaf to the Voice of Juſtice and of Conſanguinity. We muſt, therefore, acquieſce in the Neceſſity, which denounces our Separation, and hold them, as we hold the Reſt of Mankind, Enemies in War, in Peace Friends.

WE, therefore, the Repreſentatives of the UNITED STATES OF AMERICA, in GENERAL CONGRESS Aſſembled, appealing to the Supreme Judge of the World for the Rectitude of our Intentions, do, in the Name, and by Authority of the good People of theſe Colonies, ſolemnly Publiſh and Declare, That theſe United Colonies are, and of Right ought to be, FREE AND INDEPENDENT STATES; that they are abſolved from all Allegiance to the Britiſh Crown, and that all political Connexion between them and the State of Great-Britain, is, and ought to be, totally diſſolved; and that as FREE AND INDEPENDENT STATES, they have full Power to levy War, conclude Peace, contract Alliances, eſtabliſh Commerce, and to do all other Acts and Things which INDEPENDENT STATES may of Right do. And for the Support of this Declaration, with a firm Reliance on the Protection of DIVINE PROVIDENCE, we mutually pledge to each other our *Lives*, our *Fortunes*, and our *ſacred Honour*.

John Hancock.

GEORGIA, { *Button Gwinnett, Lyman Hall, Geo. Walton.*
NORTH-CAROLINA, { *Wm. Hooper, Joſeph Hewes, John Penn.*
SOUTH-CAROLINA, { *Edward Rutledge, Thos. Heyward, junr. Thomas Lynch, junr. Arthur Middleton.*
MARYLAND, { *Samuel Chaſe, Wm. Paca, Thos. Stone, Charles Carroll, of Carrollton.*
VIRGINIA, { *George Wythe, Richard Henry Lee, Thos. Jefferſon, Benja. Harriſon, Thos. Nelſon, jr. Francis Lightfoot Lee, Carter Braxton.*
PENNSYLVANIA, { *Robt. Morris, Benjamin Rush, Benja. Franklin, John Morton, Geo. Clymer, Jas. Smith, Geo. Taylor, James Wilſon, Geo. Roſs.*
DELAWARE, { *Cæſar Rodney, Geo. Read.*
NEW-YORK, { *Wm. Floyd, Phil. Livingſton, Franc. Lewis, Lewis Morris.*
NEW-JERSEY, { *Richd. Stockton, Jno. Witherſpoon, Frar. Hopkinſon, John Hart, Abra. Clark.*
NEW-HAMPSHIRE, { *Joſiah Bartlett, Wm. Whipple, Matthew Thornton.*
MASSACHUSETTS-BAY, { *Saml. Adams, John Adams, Robt. Treat Paine, Elbridge Gerry.*
RHODE-ISLAND AND PROVIDENCE, &c. { *Step. Hopkins, William Ellery.*
CONNECTICUT, { *Roger Sherman, Samel. Huntington, Wm. Williams, Oliver Wolcott.*

IN CONGRESS, JANUARY 18, 1777.

ORDERED, THAT an authenticated Copy of the DECLARATION OF INDEPENDENCY, with the Names of the MEMBERS of CONGRESS, ſubſcribing the ſame, be ſent to each of the UNITED STATES, and that they be deſired to have the ſame put on RECORD.

By Order of CONGRESS,

JOHN HANCOCK, *Preſident.*

Attest Chas Thomson Secy

A True Copy
John Hancock Presd

BALTIMORE, in MARYLAND: Printed by MARY KATHARINE GODDARD.

Declaration of Independence

The Continental Congress declared independence from Great Britain on July 4, 1776. Quickly, they had copies of their Declaration printed and sent to the newly independent states. Six months later, after George Washington's military victories at Trenton and Princeton, the Continental Congress ordered that an "authentic copy" of the Declaration of Independence be made. Mary Katherine Goddard printed the copies in Baltimore, Maryland. For the first time, an official copy of the Declaration of Independence made public the names of all of the signers. John Hancock, president of the Continental Congress, sent this copy to Massachusetts on January 31, 1777. It is one of four **"Goddard"** broadsides still held by a state archives.

Statement of Net Assets

June 30, 2010

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash and cash equivalents	$ 241,938	$ 437,292	$ 679,230	$ 611,485
Cash with fiscal agent	589,492	-	589,492	-
Short-term investments	2,295,328	334,710	2,630,038	297,509
Receivables, net of allowance for uncollectibles:				
Taxes	2,528,070	-	2,528,070	-
Federal grants and reimbursements receivable	1,922,569	87,963	2,010,532	166,917
Loans	5,267	42,152	47,419	423,957
Other receivables	298,307	559,124	857,431	232,060
Due from cities and towns	3,391	-	3,391	-
Due from component units	32,592	-	32,592	-
Due from primary government	-	-	-	506,085
Due from affiliates	-	16,101	16,101	-
Inventory	-	-	-	79
Other current assets	32,069	43,854	75,923	124,053
Total current assets	**7,949,023**	**1,521,196**	**9,470,219**	**2,362,145**
Noncurrent assets:				
Cash and cash equivalents - restricted	-	840,813	840,813	66,637
Long - term investments	-	1,140,208	1,140,208	1,508,008
Investments, restricted investments and annuity contracts	2,337,976	-	2,337,976	2,040,002
Accounts receivable, net	821,831	36,429	858,260	1,873
Loans receivable, net	85,180	13,064	98,244	3,552,345
Due from component units	15,531	-	15,531	-
Due from primary government	-	-	-	4,431
Non-depreciable capital assets	1,345,368	564,413	1,909,781	3,751,033
Depreciable capital assets, net	2,653,291	3,112,573	5,765,864	27,617,214
Other noncurrent assets	-	49,818	49,818	222,715
Other noncurrent assets - restricted	-	559,789	559,789	-
Total noncurrent assets	**7,259,177**	**6,317,107**	**13,576,284**	**38,764,258**
Deferred outflows of derivative investments	443,575	65,809	509,384	198,753
Total assets and deferred outflows	**15,651,775**	**7,904,112**	**23,555,887**	**41,325,156**
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	2,759,188	327,339	3,086,527	790,897
Accrued payroll	128,630	132,804	261,434	1,649
Compensated absences	300,641	122,570	423,211	3,303
Accrued interest payable	303,014	17,031	320,045	210,523
Tax refunds and abatements payable	813,199	26,498	839,697	-
Due to component units	506,085	-	506,085	-
Due to primary government	-	-	-	32,592
Due to federal government	22,008	-	22,008	-
Claims and judgments	20,000	-	20,000	-
Deferred revenue	-	22,843	22,843	81,883
Deposits and unearned revenue	-	61,372	61,372	-
Due to affiliates	-	16,671	16,671	-
School construction grants payable	423,451	-	423,451	-
Capital leases	13,722	9,863	23,585	36,871
Massachusetts School Building Authority bonds and unamortized premiums	108,380	-	108,380	-
Unamortized deferred loss on refunding	(4,270)	-	(4,270)	-
Bonds payable and unamortized premiums	1,436,711	141,357	1,578,068	606,117
Environmental remediation liability	10,737	1,647	12,384	-
Total current liabilities	**6,841,495**	**879,995**	**7,721,490**	**1,763,835**

Statement of Net Assets

June 30, 2010

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
Noncurrent liabilities:				
Compensated absences	169,205	55,571	224,776	94
Accrued interest payable	-	-	-	95,326
Due to component units	4,431	-	4,431	-
Due to primary government	-	-	-	15,531
Due to federal government - grants	-	399,952	399,952	-
Claims and judgments	40,000	-	40,000	-
Deferred revenue	-	57,699	57,699	28,263
Prizes payable	1,484,794	-	1,484,794	-
Capital leases	62,886	31,061	93,947	262,159
Bonds payable and unamortized premiums	18,506,484	2,589,767	21,096,251	11,229,910
Unamortized deferred loss on refunding	(35,955)	-	(35,955)	-
Massachusetts School Building Authority bonds and unamortized premiums	4,590,913	-	4,590,913	-
School construction grants payable	2,290,682	-	2,290,682	-
Retirement system net pension obligations	1,218,133	-	1,218,133	42,856
Post - employment benefits obligations	1,953,000	-	1,953,000	293,779
Environmental remediation liability	157,469	1,800	159,269	-
Liability for derivative instruments	443,575	65,809	509,384	459,711
Other noncurrent liabilities	298,007	49,010	347,017	255,898
Total noncurrent liabilities	**31,183,624**	**3,250,669**	**34,434,293**	**12,683,527**
Total liabilities	**38,025,119**	**4,130,664**	**42,155,783**	**14,447,362**
NET ASSETS				
Invested in capital assets, net of related debt	(885,593)	1,767,434	881,841	24,153,512
Restricted for:				
Unemployment benefits	-	447,106	447,106	-
Retirement of indebtedness	589,492	-	589,492	-
Other purposes	5,000	701,645	706,645	3,112,189
Unrestricted (deficits)	(22,082,243)	857,263	(21,224,980)	(387,907)
Total net assets (deficits)	**$ (22,373,344)**	**$ 3,773,448**	**$ (18,599,896)**	**$ 26,877,794**

The notes to the financial statements are an integral part of this statement. *(concluded)*

Statement of Activities

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

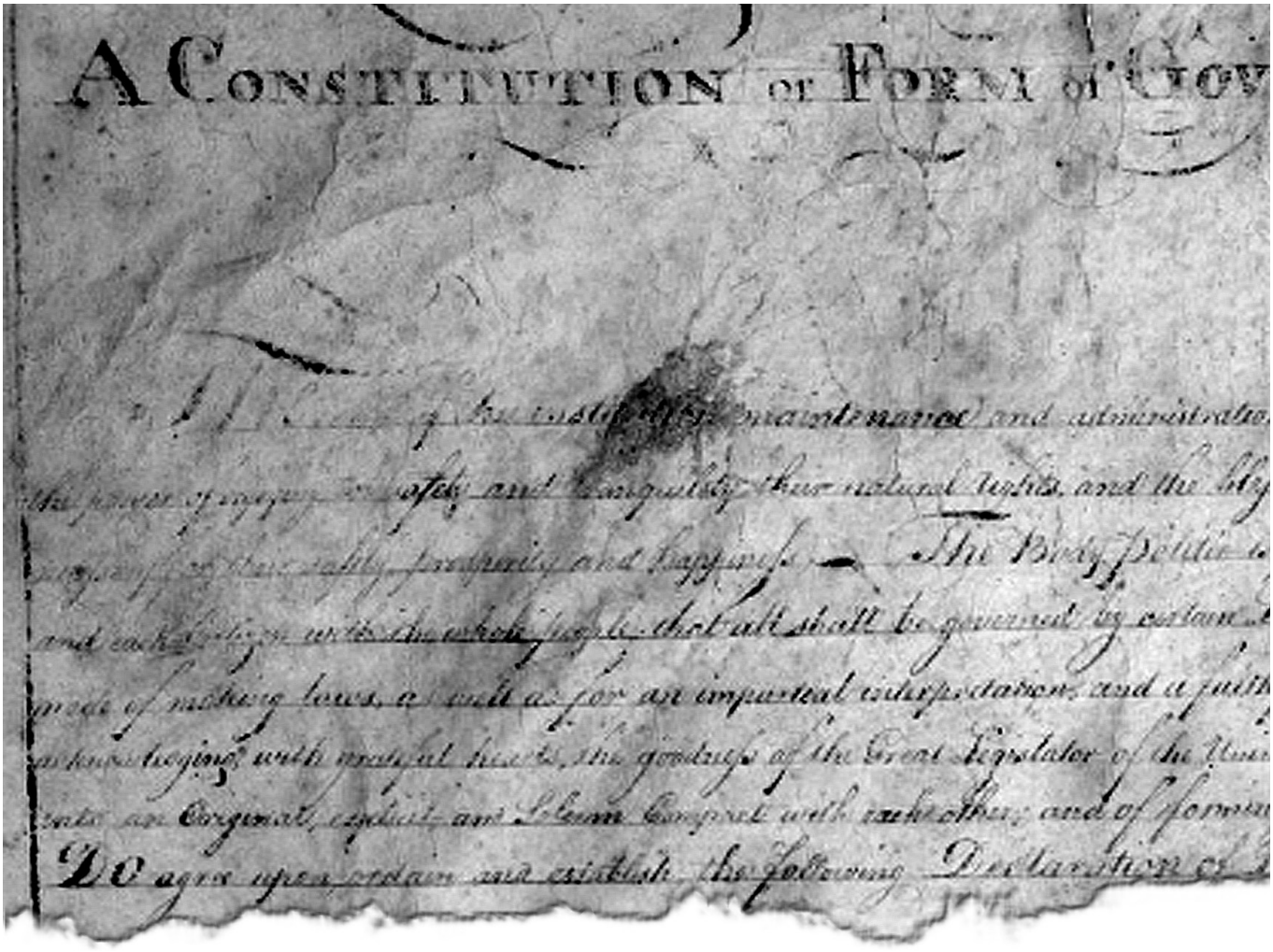
Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental Activities:								
General government	$ 2,358,706	$ 464,592	$ 88,455	$ 76	$ (1,805,584)	$ -	$ (1,805,584)	$ -
Judiciary	1,043,004	128,198	763	-	(914,043)	-	(914,043)	-
Direct local aid	5,030,363	-	-	-	(5,030,363)	-	(5,030,363)	-
Medicaid	10,677,999	185,463	7,611,556	1,576	(2,879,403)	-	(2,879,403)	-
Group health insurance	1,092,178	349,870	-	-	(742,308)	-	(742,308)	-
Interest (unallocated)	1,090,471	-	-	-	(1,090,471)	-	(1,090,471)	-
Energy and environmental affairs	326,128	214,269	97,329	-	(14,530)	-	(14,530)	-
Housing and economic development	1,297,143	221,340	665,050	-	(410,753)	-	(410,753)	-
Health and human services	6,119,110	797,929	1,271,619	1	(4,049,560)	-	(4,049,560)	-
Transportation and public works	2,088,354	517,045	13,009	15,193	(1,543,108)	-	(1,543,108)	-
Early elementary and secondary education	3,395,360	9,661	1,472,773	762,496	(1,150,429)	-	(1,150,429)	-
Public safety and homeland security	2,409,557	202,427	207,880	61	(1,999,189)	-	(1,999,189)	-
Labor and workforce development	483,091	38,319	216,873	-	(227,899)	-	(227,899)	-
Lottery	3,649,396	4,626,777	-	-	977,381	-	977,381	-
Total governmental activities	**41,060,860**	**7,755,891**	**11,645,306**	**779,403**	**(20,880,259)**	**-**	**(20,880,259)**	**-**
Business-Type Activities:								
Unemployment Compensation	5,435,611	1,727,964	3,129,058	-		(578,589)	(578,589)	-
Higher Education:								
University of Massachusetts	2,640,134	1,527,880	564,438	-		(547,816)	(547,816)	-
State Colleges	762,043	479,900	82,352	-		(199,791)	(199,791)	-
Community Colleges	716,526	235,865	244,503	-		(236,158)	(236,158)	-
Total business-type activities	**9,554,314**	**3,971,609**	**4,020,351**	**-**	**-**	**(1,562,354)**	**(1,562,354)**	**-**
Total primary government	**$ 50,615,174**	**$ 11,727,500**	**$ 15,665,657**	**$ 779,403**	**(20,880,259)**	**(1,562,354)**	**(22,442,613)**	**-**
Component Units:								
Massachusetts Department of Transportation	$ 3,859,036	$ 915,950	$ 2,667,176	$ -				(275,910)
Commonwealth Health Insurance Connector	796,191	801,041	-	-				4,850
Massachusetts Water Pollution Abatement Trust	278,199	5,181	39,584	178,096				(55,338)
Other nonmajor component units	573,658	190,360	168,598	185,715				(28,985)
Total component units	**$ 5,507,084**	**$ 1,912,532**	**$ 2,875,358**	**$ 363,811**	**-**	**-**	**-**	**(355,383)**

(continued)

	Primary Government			
General revenues:	Governmental Activities	Business-type Activities	Total	Component Units
Taxes:				
Income	10,227,493	-	10,227,493	-
Sales taxes	4,720,057	-	4,720,057	-
Corporate taxes	1,857,090	-	1,857,090	-
Motor and special fuel taxes	658,197	-	658,197	-
Other taxes	1,571,390	-	1,571,390	-
Miscellaneous:				
Investment earnings	56,185	128,552	184,737	167,838
Tobacco settlement	263,678	-	263,678	-
Contribution from municipalities	39,160	-	39,160	-
Other revenue	1,115,972	424,536	1,540,508	-
Loss on sale of capital assets	-	(12,125)	(12,125)	-
Transfers	(864,697)	864,697	-	-
Transfers to \ from MassDOT	(8,983,955)	-	(8,983,955)	-
Total general revenues and transfers	**10,660,570**	**1,405,660**	**12,066,230**	**167,838**
Change in net assets	**(10,219,689)**	**(156,694)**	**(10,376,383)**	**(187,545)**
Net assets (deficits) - beginning, as restated	(12,153,655)	3,930,142	(8,223,513)	27,065,339
Net assets (deficits) - ending	**$ (22,373,344)**	**$ 3,773,448**	**$ (18,599,896)**	**$ 26,877,794**

The notes to the financial statements are an integral part of this statement.

(concluded)

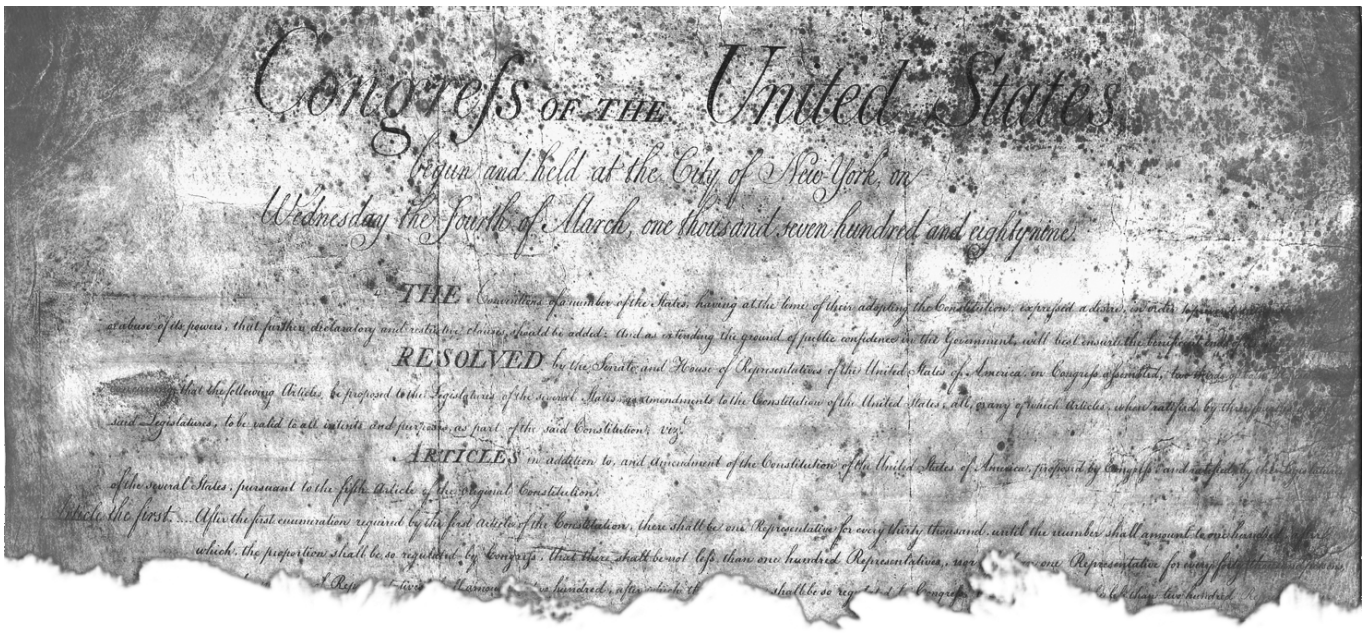

A CONSTITUTION or FORM of GOV

Constitution of the Commonwealth of Massachusetts, 1780

Massachusetts was the last of the thirteen original states to adopt a state constitution. In 1779, a constitutional convention requested that John Adams, a "sub-committee of one," prepare a draft of a new constitution. The Massachusetts Constitution, which was ratified in 1780, is the oldest written document still used for governance in the world. Although amended, it has never been replaced. Many of John Adams' ideas expressed in the Massachusetts Constitution, including the separation of powers and a declaration of rights, were later incorporated into the United States Constitution of 1787. Faded ink and wrinkled parchment make it difficult to read some sections of the Constitution. In 1894, an exact manuscript copy of the document was created, because of concerns over its condition.

A DECLARATION of the RIGHTS of the Inhu

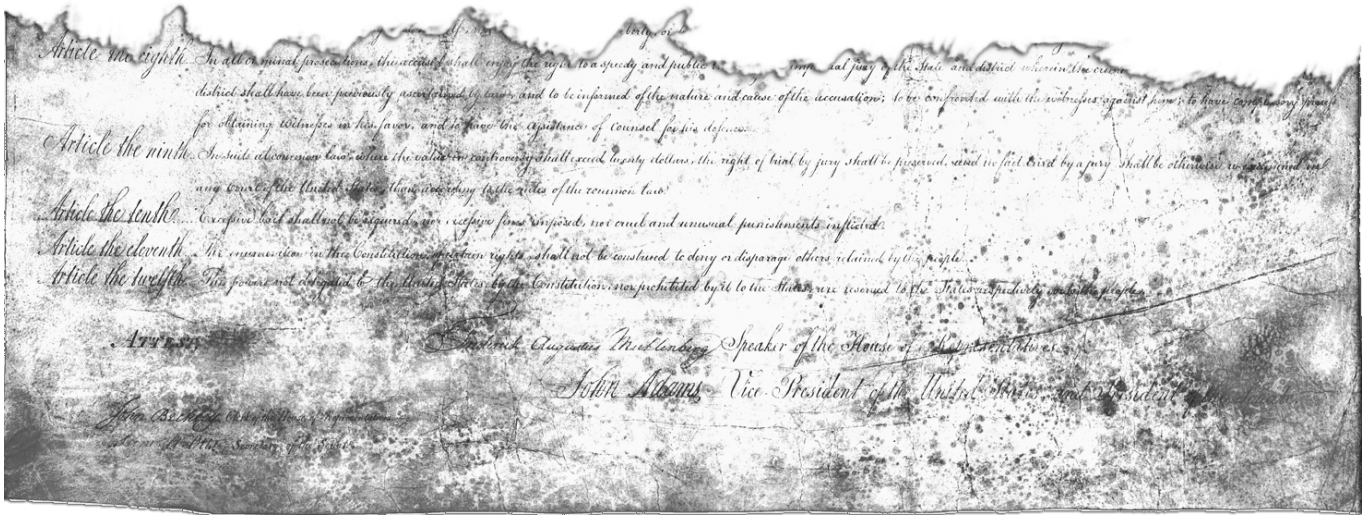
Governmental Fund Financial Statements


Congress of the United States
begun and held at the City of New-York, on
Wednesday the Fourth of March, one thousand seven hundred and eighty nine.
THE Conventions of a number of the States, having at the time of their adopting the Constitution, expressed a desire, in order to prevent misconstruction or abuse of its powers, that further declaratory and restrictive clauses should be added: And as extending the ground of public confidence in the Government, will best ensure the beneficent ends of its institution
RESOLVED by the Senate and House of Representatives of the United States of America, in Congress assembled, two thirds of both Houses concurring, that the following Articles be proposed to the Legislatures of the several States, as amendments to the Constitution of the United States; all, or any of which Articles, when ratified by three fourths of the said Legislatures, to be valid to all intents and purposes, as part of the said Constitution; viz.
ARTICLES in addition to, and amendment of the Constitution of the United States of America, proposed by Congress, and ratified by the Legislatures of the several States, pursuant to the fifth Article of the original Constitution.
Article the first. ... After the first enumeration required by the first article of the Constitution, there shall be one Representative for every thirty thousand, until the number shall amount to one hundred, after which, the proportion shall be so regulated by Congress, that there shall be not less than one hundred Representatives, nor less than one Representative for every forty thousand persons, until the number of Representatives shall amount to two hundred; after which, the proportion shall be so regulated by Congress, that there shall not be less than two hundred Representatives, nor more than one Representative for every fifty thousand persons.

Federal Bill of Rights, 1789

The first ten amendments to the United States Constitution are known as the Bill of Rights. Congress originally drafted twelve amendments, ten of them relating to the rights of individuals. Fourteen parchment copies of the proposed amendments were created. Congress kept one copy, now on display at the National Archives, while President George Washington sent the other originals to the thirteen states for ratification.

In Massachusetts, debate over the Bill of Rights was contentious. Although the amendments received the strong support of Samuel Adams, the Legislature did not approve them. Ten of the proposed amendments were accepted by three-quarters of the states. They became the first amendments to the United States Constitution, even without the approval of Massachusetts, Connecticut, and Georgia.


Article the eighth. ... In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the assistance of counsel for his defence.
Article the ninth. ... In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.
Article the tenth. ... Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.
Article the eleventh. ... The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.
Article the twelfth. ... The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.
ATTEST
Frederick Augustus Muhlenberg Speaker of the House of Representatives.
John Adams Vice President of the United States, and President of the Senate.

Balance Sheet
Governmental Funds
June 30, 2010
(Amounts in thousands)

	General	Commonwealth Transportation	Lotteries	Massachusetts School Building Authority	Federal Grants	Highway Capital Projects	Other Governmental Funds	Total
ASSETS								
Cash, cash equivalents and short-term investments	$ 13,966	$ 12,271	$ 44,330	$ 875,395	$ -	$ -	$ 1,591,304	$ 2,537,266
Cash with fiscal agent	-	10,847	-	-	-	-	578,645	589,492
Investments and restricted investments	254,681	-	-	598,501	-	-	-	853,182
Receivables, net of allowance for uncollectibles:								
Taxes	3,032,120	56,247	-	46,824	-	-	80,305	3,215,496
Due from federal government	1,407,053	-	-	-	457,195	-	113,694	1,977,942
Loan receivable	-	-	-	89,533	-	-	914	90,447
Other receivables	128,583	1,011	4,732	8,615	-	-	231,022	373,963
Due from cities and towns	3,391	-	-	-	-	-	-	3,391
Due from other funds	653,973	63,239	-	-	-	-	131,469	848,681
Due from component units	32,592	-	-	-	-	-	-	32,592
Total assets	**$ 5,526,359**	**$ 143,615**	**$ 49,062**	**$ 1,618,868**	**$ 457,195**	**$ -**	**$ 2,727,353**	**$ 10,522,452**
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 1,831,289	$ 5,155	$ 40,267	$ 48,470	$ 375,981	$ 18	$ 357,461	$ 2,658,641
Accrued payroll	108,285	7,116	-	-	7,246	-	5,983	128,630
Tax refunds and abatements payable	812,575	-	-	304	-	-	320	813,199
Due to other funds	63,239	-	-	-	30,254	584,862	160,975	839,330
Due to component units	72,367	66,823	-	-	-	122,452	244,443	506,085
Due to federal government	22,008	-	-	-	-	-	-	22,008
Deferred revenue	761,813	-	5,802	-	-	-	54,216	821,831
Claims and judgments	20,000	-	-	-	-	-	-	20,000
School construction grants payable	-	-	-	35,065	-	-	-	35,065
Other accrued liabilities	-	-	-	-	-	-	91,948	91,948
Total liabilities	**3,691,576**	**79,094**	**46,069**	**83,839**	**413,481**	**707,331**	**915,346**	**5,936,736**
Fund balances (deficits):								
Reserved for:								
Retirement of indebtedness	-	10,847	-	-	-	-	578,645	589,492
Permanent trust funds	-	-	-	-	-	-	5,000	5,000
Undesignated:								
General	1,834,783	-	-	-	-	-	-	1,834,783
Special revenue	-	53,674	2,993	1,535,029	43,714	-	1,020,142	2,655,552
Capital projects	-	-	-	-	-	(707,331)	208,220	(499,111)
Fund balances (deficits)	**1,834,783**	**64,521**	**2,993**	**1,535,029**	**43,714**	**(707,331)**	**1,812,007**	**4,585,716**
Total liabilities and fund balances	**$ 5,526,359**	**$ 143,615**	**$ 49,062**	**$ 1,618,868**	**$ 457,195**	**$ -**	**$ 2,727,353**	**$ 10,522,452**

The notes to the financial statements are an integral part of this statement.

Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2010
(Amounts in thousands)

Total fund balances - governmental funds		**$ 4,585,716**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Capital assets not being depreciated	$ 1,345,368	
Capital assets being depreciated, net	2,653,291	
Capital assets, net of accumulated depreciation		3,998,659
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different basis of accounting		821,831
Massachusetts School Building Authority assets		35,445
Lottery annuity contracts		1,484,794
Due from Component Units		15,531
Elimination of due from / due to activity between state departments within primary government and business-type activities		(9,351)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over / (underfunding) State Retirement Systems net pension obligation	(1,218,133)	
Net post - employment benefits obligations	(1,953,000)	
Commonwealth bonded debt	(19,726,507)	
Accrued interest on bonds	(303,014)	
Unamortized bond premiums	(216,688)	
Unamortized deferred loss on refunding	40,225	
Massachusetts School Building Authority bonded debt	(4,699,293)	
Massachusetts School Building Authority grants to municipalities	(2,679,068)	
Lottery prizes payable	(1,484,794)	
Capital leases	(76,608)	
Environmental remediation liability	(168,206)	
Claims and judgments	(40,000)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims	(780,883)	
Long - term liabilities (including current portions)		(33,305,969)
Total net assets (deficits) - governmental activities		**$ (22,373,344)**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	General	Commonwealth Transportation	Lotteries	Massachusetts School Building Authority	Federal Grants	Highway Capital Projects	Other Governmental Funds	Total
REVENUES								
Taxes	$ 16,649,122	$ 657,330	$ 878	$ 610,750	$ -	$ -	$ 1,072,445	$ 18,990,525
Assessments	395,712	14,640	-	-	-	-	554,447	964,799
Federal grants and reimbursements	8,599,898	-	-	-	2,970,750	-	854,033	12,424,681
Departmental	1,634,496	488,511	4,626,933	-	-	-	368,809	7,118,749
Miscellaneous	468,755	29,392	1,128	41,550	26	1	796,670	1,337,522
Total revenues	**27,747,983**	**1,189,873**	**4,628,939**	**652,300**	**2,970,776**	**1**	**3,646,404**	**40,836,276**
EXPENDITURES								
Current:								
Legislature	59,453	-	-	-	-	-	-	59,453
Judiciary	767,273	-	-	-	660	-	789	768,722
Inspector General	2,734	-	-	-	-	-	882	3,616
Governor and Lieutenant Governor	5,176	-	-	-	-	-	9	5,185
Secretary of the Commonwealth	47,764	-	-	-	693	-	3,698	52,155
Treasurer and Receiver-General	181,219	-	3,640,103	13,899	2,890	-	1,023,605	4,861,716
Auditor of the Commonwealth	16,827	-	-	-	-	-	793	17,620
Attorney General	40,558	-	-	-	8,589	-	2,962	52,109
Ethics Commission	1,574	-	-	-	-	-	-	1,574
District Attorney	92,792	-	-	-	2,685	-	6,873	102,350
Office of Campaign and Political Finance	1,175	-	-	-	-	-	-	1,175
Sheriff's Departments	370,706	245	-	-	2,988	-	20,171	394,110
Disabled Persons Protection Commission	2,150	-	-	-	251	-	-	2,401
Board of Library Commissioners	24,672	-	-	-	2,877	-	-	27,549
Comptroller	11,080	-	-	-	-	-	2,298	13,378
Administration and finance	1,545,652	9,618	-	-	12,499	-	118,620	1,686,389
Energy and environmental affairs	183,278	8,426	-	-	78,339	-	133,161	403,204
Health and human services	4,599,112	-	-	-	529,134	-	400,361	5,528,607
Transportation and public works	-	66,701	-	-	11,854	201,878	193,208	473,641
Massachusetts department of transportation	-	426,525	-	-	-	313,777	468,437	1,208,739
Executive office of education	1,900,222	-	-	-	1,050,643	-	17,189	2,968,054
Massachusetts school building assistance	-	-	-	973,367	-	-	-	973,367
Public safety and homeland security	1,072,766	3,390	-	-	147,697	-	57,728	1,281,581
Housing and economic development	351,875	54	-	-	668,112	-	40,380	1,060,421
Labor and workforce development	28,006	-	-	-	196,289	-	222,889	447,184
Medicaid	9,501,916	-	-	-	-	-	1,176,083	10,677,999
Post employment benefits	586,712	-	-	-	-	-	-	586,712
Direct local aid	4,892,371	-	-	-	134,371	-	3,089	5,029,831
Capital outlay:								
Local aid	-	-	-	-	-	-	532	532
Capital acquisition and construction	-	-	-	-	-	233,010	1,066,874	1,299,884
Debt service	-	-	-	290,763	-	-	2,116,507	2,407,270
Total expenditures	**26,287,063**	**514,959**	**3,640,103**	**1,278,029**	**2,850,571**	**748,665**	**7,077,137**	**42,396,528**
Excess (deficiency) of revenues over (under) expenditures	**1,460,920**	**674,914**	**988,836**	**(625,729)**	**120,205**	**(748,664)**	**(3,430,733)**	**(1,560,252)**
OTHER FINANCING SOURCES								
Bonds premium	-	-	-	14,224	-	(3,224)	5,889	16,889
Issuance of general obligation bonds	-	-	-	751,000	-	574,021	1,093,564	2,418,585
Issuance of refunding bonds	-	-	-	-	-	-	538,120	538,120
Proceeds of capital leases	17,223	-	-	-	-	-	-	17,223
Transfers in for debt service	-	-	-	-	-	-	2,109,427	2,109,427
Transfers in	1,788,690	275,000	-	-	9,000	-	1,843,906	3,916,596
Total other financing sources	**1,805,913**	**275,000**	**-**	**765,224**	**9,000**	**570,797**	**5,590,906**	**9,016,840**
OTHER FINANCING USES								
Payments to refunded bond escrow agent	-	-	-	-	-	-	536,755	536,755
Transfers out	1,277,069	70,587	989,728	-	124,499	182,969	1,148,043	3,792,895
Transfers of appropriations	886,762	-	-	-	-	-	1,822	888,584
Transfers of bond proceeds	-	-	-	-	-	-	99,814	99,814
Transfers out for debt service	1,003,041	856,599	-	-	-	-	249,787	2,109,427
Transfers to \ from MassDOT	-	-	-	-	-	-	504,739	504,739
Total other financing uses	**3,166,872**	**927,186**	**989,728**	**-**	**124,499**	**182,969**	**2,540,960**	**7,932,214**
Total other financing sources and uses	**(1,360,959)**	**(652,186)**	**(989,728)**	**765,224**	**(115,499)**	**387,828**	**3,049,945**	**1,084,625**
Net change in fund balances	**99,961**	**22,728**	**(892)**	**139,495**	**4,706**	**(360,836)**	**(380,788)**	**(475,627)**
Fund balances (deficits) at beginning of year	1,734,822	41,793	3,885	1,395,534	39,008	(346,495)	2,192,795	5,061,343
Fund balances (deficits) at end of year	**$ 1,834,783**	**$ 64,521**	**$ 2,993**	**$ 1,535,029**	**$ 43,714**	**$ (707,331)**	**$ 1,812,007**	**$ 4,585,716**

The notes to the financial statements are an integral part of this statement

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the fiscal year ended June 30, 2010
(Amounts in thousands)

Net change in fund balances - total governmental funds	**$**	**(475,627)**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding reductions and dispositions		965,867
Current year depreciation expense		(370,500)
Transfers to / from MassDOT		(8,479,216)
Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting		75,439
Elimination of due from / due to activity between state departments within government and business-type activities		1,079
The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items		(461,938)
Decrease in capital leases		23,539
Massachusetts School Building Authority		(45,442)
Net underfunding of post employment benefit obligations		(1,457,118)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds		4,228
Change in net assets of governmental activities	**$**	**(10,219,689)**

The notes to the financial statements are an integral part of this statement

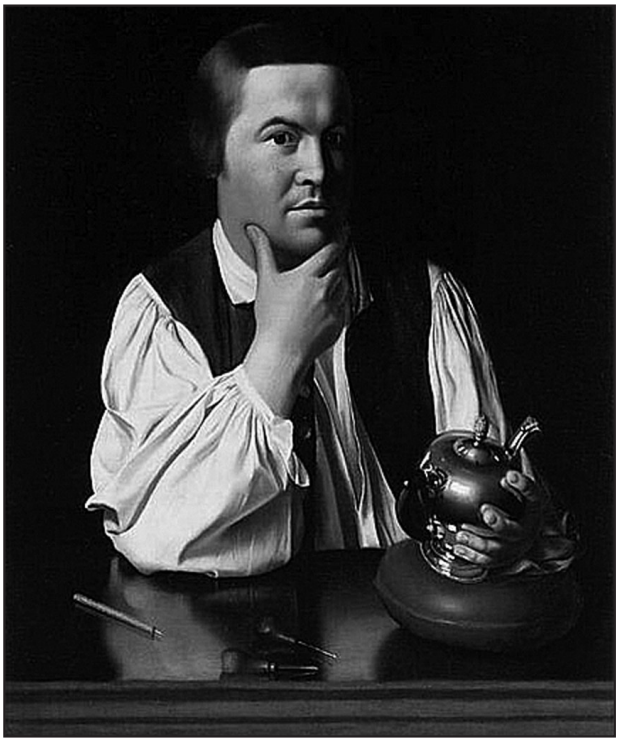
Boston Massacre Plate

In the turbulent atmosphere of pre-Revolutionary Boston, few figures galvanized public opinion as effectively as Paul Revere. His provocative images helped to ignite the firestorm that would result in the foundation, of a new nation. The impact of Revere's work remains to this day. His historic prints transport us to and connect us with the days that defined our nation's character. They are truly works that changed America.

A limited edition of three engravings hand-printed and hand-colored with watercolors in period fashion including the famous Boston Massacre, The British Troops Landing in Boston Harbor, and A Soldier's Pay, have been reproduced in a portfolio and are on sale at the Museum of Fine Arts. *www.mfa.org*

Funds from the portfolios support the Commonwealth Museum's renovation project.

Proprietary Fund Financial Statements

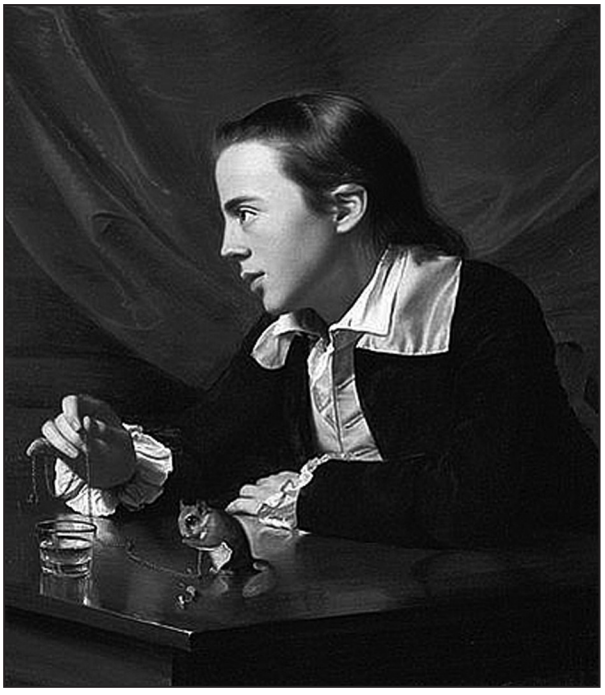


Paul Revere c. 1768-70
John Singleton Copley
Oil on canvas
Courtesy of the Museum of Fine Arts, Boston

Documentation has come to light over the years indicating that Revere copied engraver Henry Pelham's drawings of the Massacre, produced his own engraving, and three weeks after the occurrence was advertising his prints for sale in Boston's newspapers. By the time Pelham's prints hit the street, Revere's print had flooded the market. A third engraving was executed by Jonathan Mulliken, who also issued prints depicting the event. Except for a number of minor differences, all three prints appear alike.

Boston Massacre Historical Society

Henry Pelham accused Paul Revere of having copied (or "stole") the Boston Massacre image from Pelham. Pelham had given it to Revere, not expecting him to modify it slightly and sell it as his own work. He accused Revere of robbing him *"as truly as if you had plundered me on the highway."*



Henry Pelham 1765
or The Boy with the Squirrel.
as painted by his half-brother John Singleton Copley
www.johnsingletoncopley.org

Statement of Net Assets

Proprietary Funds

June 30, 2010

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents	$ -	$ 45,662	$ 275,877	$ 115,753	$ 437,292
Short-term investments	-	230,121	55,842	48,747	334,710
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable	-	76,959	1,977	9,027	87,963
Loans	-	40,755	1,389	8	42,152
Other receivables	391,351	105,553	20,708	25,188	542,800
Contribution receivables, net	-	10,977	4,123	1,224	16,324
Due from affiliates	-	15,301	-	800	16,101
Other current assets	-	36,182	3,980	3,692	43,854
Total current assets	**391,351**	**561,510**	**363,896**	**204,439**	**1,521,196**
Noncurrent assets:					
Cash and cash equivalents - restricted	-	820,937	15,179	4,697	840,813
Long-term investments	-	835,193	246,266	58,749	1,140,208
Accounts receivable, net	-	36,429	-	-	36,429
Loans receivable, net	-	-	12,478	586	13,064
Non-depreciable capital assets	-	331,027	184,967	48,419	564,413
Depreciable capital assets, net	-	1,995,064	812,553	304,956	3,112,573
Other noncurrent assets	-	24,897	24,340	581	49,818
Other noncurrent assets - restricted	559,789	-	-	-	559,789
Total noncurrent assets	**559,789**	**4,043,547**	**1,295,783**	**417,988**	**6,317,107**
Deferred outflows of derivative investments	-	64,033	-	1,776	65,809
Total assets and deferred outflows	**951,140**	**4,669,090**	**1,659,679**	**624,203**	**7,904,112**
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	79,154	180,914	43,123	24,148	327,339
Accrued payroll	-	74,554	30,889	27,361	132,804
Compensated absences	-	70,035	24,413	28,122	122,570
Accrued interest payable	-	16,647	113	271	17,031
Tax refunds and abatements payable	26,498	-	-	-	26,498
Deferred revenue	-	5,340	13,940	3,563	22,843
Student deposits and unearned revenues	-	36,880	9,412	15,080	61,372
Due to affiliates	-	14,766	537	1,368	16,671
Capital leases	-	5,962	1,595	2,306	9,863
Environmental remediation liability	-	-	1,647	-	1,647
Bonds, notes payable and other obligations	-	112,906	26,079	2,372	141,357
Total current liabilities	**105,652**	**518,004**	**151,748**	**104,591**	**879,995**
Noncurrent liabilities:					
Compensated absences	-	25,843	13,586	16,142	55,571
Due to federal government - grants	387,313	-	12,443	196	399,952
Deferred revenue	11,069	23,567	22,710	353	57,699
Capital leases	-	17,177	9,723	4,161	31,061
Environmental remediation liability	-	1,800	-	-	1,800
Bonds, notes payable and other obligations	-	1,714,823	834,075	40,869	2,589,767
Liability for derivative instruments	-	64,033	-	1,776	65,809
Other noncurrent liabilities	-	40,099	5,441	3,470	49,010
Total noncurrent liabilities	**398,382**	**1,887,342**	**897,978**	**66,967**	**3,250,669**
Total liabilities	**504,034**	**2,405,346**	**1,049,726**	**171,558**	**4,130,664**
NET ASSETS					
Invested in capital assets, net of related debt	-	1,134,963	324,909	307,562	1,767,434
Restricted for:					
Unemployment benefits	447,106	-	-	-	447,106
Other purposes	-	520,081	125,928	55,636	701,645
Unrestricted	-	608,700	159,116	89,447	857,263
Total net assets	**$ 447,106**	**$ 2,263,744**	**$ 609,953**	**$ 452,645**	**$ 3,773,448**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution	$ 1,660,262	$ -	$ -	$ -	$ 1,660,262
Net tuition and fees	-	539,306	267,013	191,256	997,575
Federal grants and reimbursements	-	564,438	82,352	244,503	891,293
Auxiliary enterprises	-	252,610	91,197	16,750	360,557
Sales & services	-	661,733	107,154	6,563	775,450
Miscellaneous	67,702	74,231	14,536	21,296	177,765
Total operating revenues	**1,727,964**	**2,092,318**	**562,252**	**480,368**	**4,862,902**
Operating expenses:					
Unemployment compensation	5,435,611	-	-	-	5,435,611
Instruction	-	552,528	235,503	263,400	1,051,431
Research	-	404,260	106	132	404,498
Academic support	-	123,901	60,092	80,889	264,882
Student services	-	88,787	71,420	92,039	252,246
Scholarships and fellowships	-	35,885	18,163	67,459	121,507
Public service	-	76,985	5,445	8,283	90,713
Operation and maintenance of plant	-	192,271	76,695	63,669	332,635
Institutional support	-	166,070	83,947	90,426	340,443
Other operating expenses	-	595,344	4,674	6,543	606,561
Depreciation	-	154,532	49,609	26,167	230,308
Auxiliary operations	-	200,458	125,691	16,267	342,416
Total operating expenses	**5,435,611**	**2,591,021**	**731,345**	**715,274**	**9,473,251**
Operating income (loss)	**(3,707,647)**	**(498,703)**	**(169,093)**	**(234,906)**	**(4,610,349)**
Nonoperating revenues (expenses):					
Other federal revenues	3,129,058	-	-	-	3,129,058
Other revenues	-	339,752	36,362	48,422	424,536
Other expenses	-	(49,113)	(30,698)	(1,252)	(81,063)
Investment income (loss)	16,314	85,539	18,009	8,690	128,552
Total nonoperating revenues (expenses)	**3,145,372**	**376,178**	**23,673**	**55,860**	**3,601,083**
Income (loss) before contributions and transfers	**(562,275)**	**(122,525)**	**(145,420)**	**(179,046)**	**(1,009,266)**
Transfers in	-	400,318	209,256	255,123	864,697
Loss on sale of capital assets	-	(12,125)	-	-	(12,125)
Change in net assets	**(562,275)**	**265,668**	**63,836**	**76,077**	**(156,694)**
Total net assets - beginning, as restated	1,009,381	1,998,076	546,117	376,568	3,930,142
Total net assets - ending	**$ 447,106**	**$ 2,263,744**	**$ 609,953**	**$ 452,645**	**$ 3,773,448**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

June 30, 2010

(Amounts in thousands)

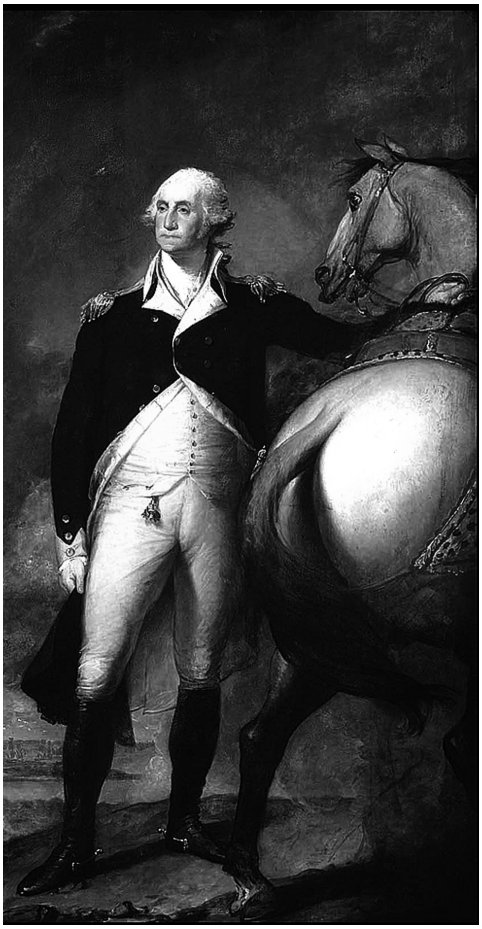
	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions	$ 1,889,712	$ -	$ -	$ -	$ 1,889,712
Tuition, residence, dining and other student fees	-	628,382	267,838	200,652	1,096,872
Research grants and contracts	-	585,697	142,633	241,119	969,449
Payments to suppliers	-	(1,160,070)	(179,629)	(166,723)	(1,506,422)
Payments to employees	-	(1,377,969)	(358,441)	(387,000)	(2,123,410)
Payments to students	-	(39,632)	(15,817)	(76,928)	(132,377)
Payments for unemployment benefits	(5,501,168)	-	-	-	(5,501,168)
Collection of loans to students and employees	-	4,116	1,260	399	5,775
Income from contract services	-	-	3,091	814	3,905
Maintenance costs	-	-	(531)	747	216
Auxilliary enterprise charges	-	262,234	41,108	(4,749)	298,593
Other receipts	67,702	715,798	16,754	34,369	834,623
Net cash used by operating activities	**(3,543,754)**	**(381,444)**	**(81,734)**	**(157,300)**	**(4,164,232)**
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations	-	593,906	171,589	195,068	960,563
Grants and contracts	3,516,371	-	2,900	18,550	3,537,821
Student organizations agency transactions	-	330	-	22	352
Other receipts (payments)	11,069	27,343	1,811	(91)	40,132
Net cash provided by non-capital financing activities	**3,527,440**	**621,579**	**176,300**	**213,549**	**4,538,868**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations	-	28,245	4,911	15,528	48,684
Purchases of capital assets	-	(350,135)	(123,285)	(29,219)	(502,639)
Proceeds from revenue obligation debt issuance	-	565,457	163,382	2,891	731,730
Other capital asset activity	-	13,344	(5,904)	765	8,205
Investments held by bond trustee, net	-	-	-	158	158
Contract revenue	-	-	(23)	-	(23)
Principal paid on capital debt and leases	-	(84,549)	(21,809)	(6,558)	(112,916)
Interest paid on capital debt and leases	-	(52,096)	(39,757)	(1,808)	(93,661)
Net cash provided by (used in) capital financing activities	**-**	**120,266**	**(22,485)**	**(18,243)**	**79,538**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	-	625,378	188,412	82,352	896,142
Purchases of investments	-	(675,216)	(201,994)	(81,199)	(958,409)
Investment earnings	16,314	21,691	9,519	2,523	50,047
Net cash provided by (used by) investing activities	**16,314**	**(28,147)**	**(4,063)**	**3,676**	**(12,220)**
Net increase decrease) in cash and cash equivalents	**-**	**332,254**	**68,018**	**41,682**	**441,954**
Cash and cash equivalents at the beginning of the fiscal year, as restated	-	534,345	223,038	78,768	836,151
Cash and cash equivalents at the end of the fiscal year	**$ -**	**$ 866,599**	**$ 291,056**	**$ 120,450**	**$ 1,278,105**
Reconciliation of net operating revenues and expenses to cash used by operating activities:					
Operating loss	$ (3,707,647)	$ (498,703)	$ (169,093)	$ (234,906)	$ (4,610,349)
Adjustments to reconcile operating loss to net cash used by operating activities:					
Depreciation expense	-	154,532	49,609	26,167	230,308
Fringe benefits paid by the Commonwealth	-	-	41,163	50,258	91,421
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets	10,956	(27,429)	(4,278)	(3,946)	(24,697)
Accounts payable, accrued liabilities and benefits	(65,557)	29,899	(936)	5,443	(31,151)
Student deposits and other unearned and deferred revenues	-	(12,241)	1,390	(1,099)	(11,950)
Other noncurrent assets - restricted and liabilities	218,494	(27,502)	411	783	192,186
Net cash used by operating activities	**$ (3,543,754)**	**$ (381,444)**	**$ (81,734)**	**$ (157,300)**	**$ (4,164,232)**

Non-cash investing, capital and financing activities:

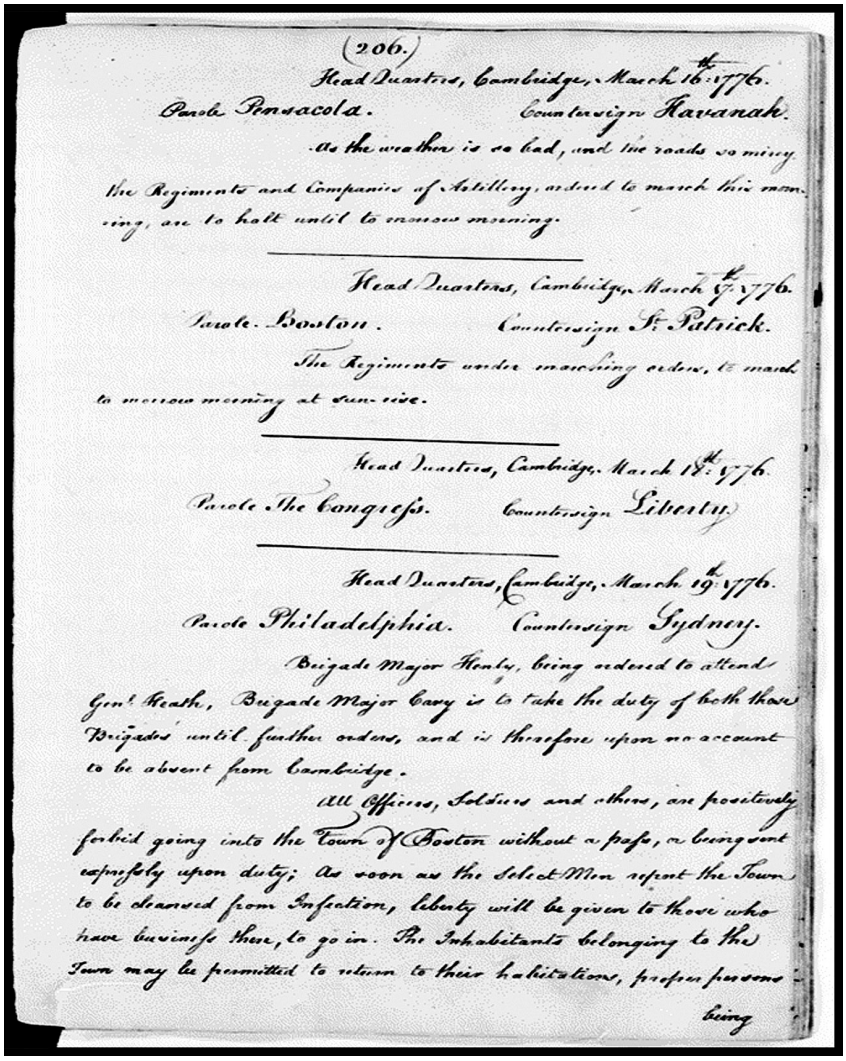
The University System had $58,960,000 of non-cash activities, and the State and Community Colleges had $118,942,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Financial Statements



Courtesy of the Library of Congress



(206.)

Head Quarters, Cambridge, March 16th 1776.

Parole Pensacola. Countersign Havanah.

As the weather is so bad, and the roads so miry, the Regiments and Companies of Artillery, ordered to march this morning, are to halt until to-morrow morning.

Head Quarters, Cambridge, March 17th 1776.

Parole. Boston. Countersign St. Patrick.

The Regiments under marching orders, to march to-morrow morning at sun-rise.

Head Quarters, Cambridge. March 18th 1776.

Parole The Congress. Countersign Liberty.

Head Quarters, Cambridge, March 19th 1776.

Parole Philadelphia. Countersign Sydney.

Brigade Major Henly, being ordered to attend Gen.l Heath, Brigade Major Cary is to take the duty of both those Brigades until further orders, and is therefore upon no account to be absent from Cambridge.

All Officers, Soldiers and others, are positively forbid going into the Town of Boston without a pass, or being sent especially upon duty; As soon as the Select-Men report the Town to be cleansed from Infection, Liberty will be given to those who have business there, to go in. The Inhabitants belonging to the Town may be permitted to return to their habitations, proper persons being

St Patrick Was the Password

This document lists passwords for the American army. "St. Patrick" was the phrase used by General Washington for March 17, 1776. Today, Saint Patrick's Day and Evacuation Day are jointly celebrated in Boston.

Statement of Net Assets

Fiduciary Funds
June 30, 2010
(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
ASSETS				
Cash and short-term investments	$ -	$ -	$ 834	$ 383,597
Assets held in trust for post - employment benefits:				
Cash and short-term investments	102,806	756,988	-	-
Investments at fair value	35,782,777	4,721,162	-	-
Assets held in trust for pool participants:				
Cash and short-term investments	-	4,405,008	-	-
Investments, restricted investments and annuity contracts	-	-	-	1,484,794
Assets held in trust	-	-	-	707,107
Receivables, net of allowance for uncollectibles:				
Taxes	-	-	-	1,916
Other receivables	82,188	45,783	-	111,758
Total assets	**35,967,771**	**9,928,941**	**834**	**2,689,172**
LIABILITIES				
Accounts payable	11,718	64,998	-	51,748
Due to cities and towns	-	-	-	26,833
Lottery prizes payable	-	-	-	1,484,794
Agency liabilities	-	-	-	1,125,797
Other accrued liabilities	-	679	-	-
Total liabilities	**11,718**	**65,677**	**-**	**$ 2,689,172**
NET ASSETS				
Restricted for employees' post - employment benefits	35,956,053	-	-	
Restricted for external investment trust fund participants	-	9,863,264	-	
Restricted for private purposes	-	-	834	
Total net assets	**$ 35,956,053**	**$ 9,863,264**	**$ 834**	

The notes to the financial statements are an integral part of this statement

Statement of Changes in Net Assets

Fiduciary Funds
Fiscal Year Ended June 30, 2010
(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
ADDITIONS			
Contribution:			
Employer contributions	$ 1,748,932	$ -	$ -
Employee contributions	1,068,738	-	-
MTA retiree funds	176,478	-	-
Proceeds from sale of units	-	23,427,669	-
Total contributions	**2,994,148**	**23,427,669**	**-**
Net investment gain (loss):			
Net Investment gain (loss), net of management fees	4,092,697	615,590	-
Net investment gain (loss)	**4,092,697**	**615,590**	**-**
Total additions	**7,086,845**	**24,043,259**	**-**
DEDUCTIONS			
Administration	25,269	-	-
Retirement benefits and refunds	3,950,574	-	-
Payments to State Boston Retirement System	126,871	-	-
Cost of units redeemed	-	24,068,689	-
Distribution to unit holders	-	24,431	-
Total deductions	**4,102,714**	**24,093,120**	**-**
Net increase (decrease)	**2,984,131**	**(49,861)**	**-**
Net assets - beginning	32,971,922	9,913,125	834
Net assets - ending	**$ 35,956,053**	**$ 9,863,264**	**$ 834**

The notes to the financial statements are an integral part of this statement

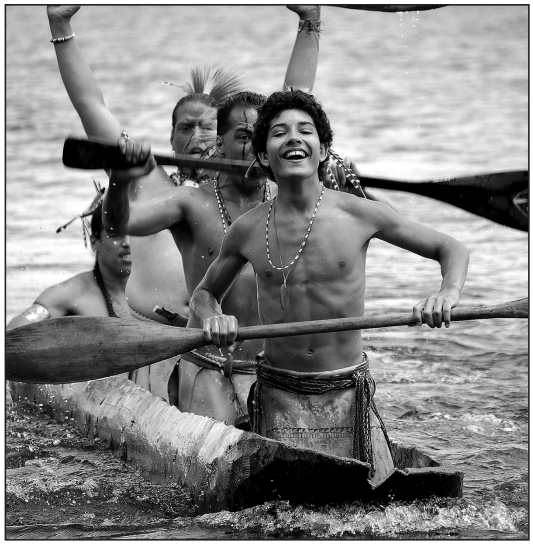
Deed for Cape Cod, 1679

Colony officials purchased Cape Cod lands from native people for "2 brass kettles, six coates, twelve howes 12 axes, 12 knives and a box," along with "five pounds and ten shillings." Signing with pictograms, Indians retained rights "to set theire wiigwams on the said land"...gather food and firewood and "have such whales blackfish porpusses and blubber as shall be cast on shore."

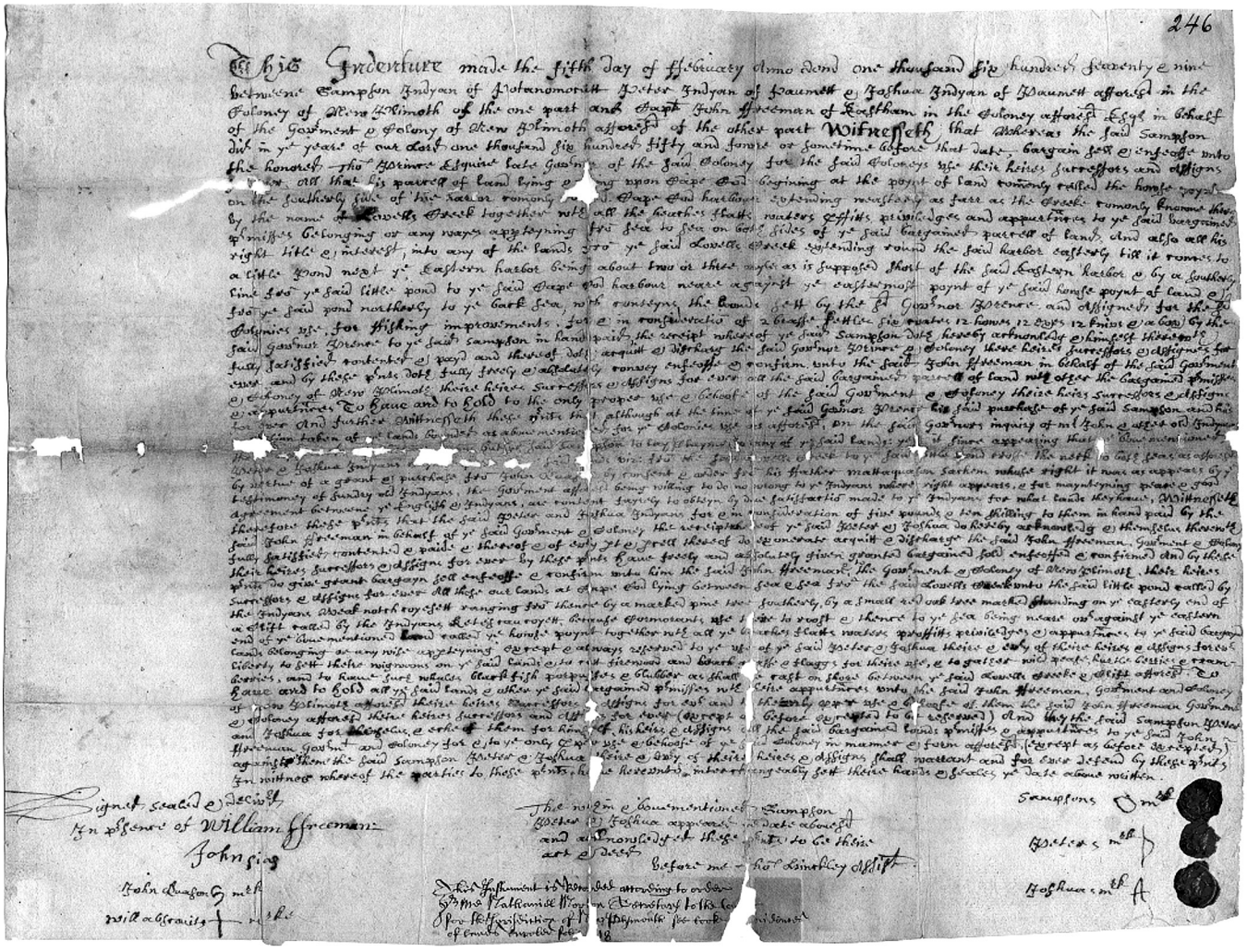
Cape Cod has been the home of the Wampanoag tribe of Native American people for many centuries. They survived off the sea and were accomplished farmers. They understood the principles of sustainable forest management, and were known to light controlled fires to keep the underbrush in check. They helped the Pilgrims, who arrived in the fall of 1620, survive at their new Plymouth Colony.

At the Wampanoag Homesite at Plimoth Plantation, one can learn about traditional Wampanoag family life as well as the arrival of the English from an Indigenous point of view.

A group of young Native men of the Wampanaoag Indigenous Program at Plimoth Plantation celebrate a victory in the annual mishoon race. Mishoon is the Wampanoag word for boat or canoe. The Mishoon used in the race are made in the Wampanoag Homesite at the museum using fire as a tool to hollow out the center of a felled tree.



Courtesy of Plimoth Plantation



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This Indenture made the fifth day of ffebruary Anno dom one thousand six hundred seventy & nine

Plymouth Colony Records

Discretely Presented Component Unit Financial Statements

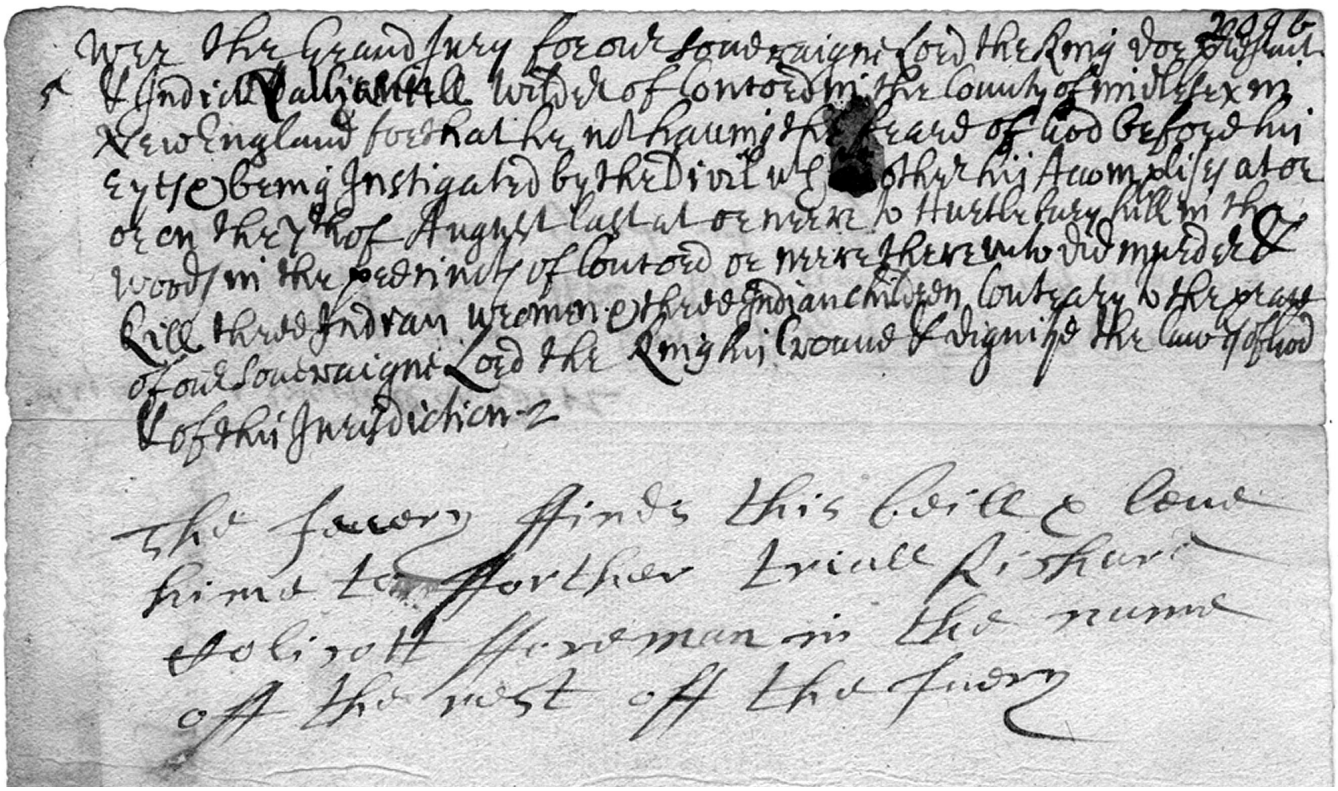
Philip, sachem of the Wampanoags. From Samuel Gardner Drake, History and Antiquities of Boston.

King Philip's War

King Philip's War, sometimes called Metacom's War or Metacom's Rebellion, was an armed conflict between Native American inhabitants of present-day southern New England and English colonists and their Native American allies in 1675–1676. The war is named after the main leader of the Native American side, Metacomet, Metacom, or Pometacom, known to the English as "King Philip". King Philip may well have been a name that he adopted, as it was common for Natives to take other names.

Indictment of Daniel Wilder, 1676

Four soldiers slaughtered Christian Indian women and children on Hurtleberry Hill near Concord. Two men were hanged for the crime. The records of the "war crimes" trial reflect Puritan fears that such conflicts could brutalize society and undermine the rule of law.



Statement of Net Assets

Component Units
June 30, 2010
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
ASSETS ANS DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents	$ 244,065	$ 25,601	$ 204,847	$ 136,972	$ 611,485
Short-term investments	-	-	20,966	276,543	297,509
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable	40,264	-	125,598	1,055	166,917
Loans	-	-	379,331	44,626	423,957
Other receivables	132,036	1,657	65,714	32,653	232,060
Due from primary government	433,718	-	3,813	68,554	506,085
Inventory	-	-	-	79	79
Other current assets	117,655	134	-	6,264	124,053
Total current assets	**967,738**	**27,392**	**800,269**	**566,746**	**2,362,145**
Noncurrent assets:					
Cash and cash equivalents - restricted	-	9,406	-	57,231	66,637
Long - term investments	-	-	1,429,286	78,722	1,508,008
Restricted investments and annuity contracts	1,871,510	-	-	168,492	2,040,002
Accounts receivables, net	-	-	-	1,873	1,873
Loans receivables, net	-	-	3,148,462	403,883	3,552,345
Due from primary government	-	-	-	4,431	4,431
Non-depreciable capital assets	3,649,895	-	-	101,138	3,751,033
Depreciable capital assets, net	26,636,615	187	-	980,412	27,617,214
Other noncurrent assets	205,100	-	7,008	10,607	222,715
Total noncurrent assets	**32,363,120**	**9,593**	**4,584,756**	**1,806,789**	**38,764,258**
Deferred outflows from derivative instruments	179,278	-	1,259	18,216	198,753
Total assets and deferred outflows	**33,510,136**	**36,985**	**5,386,284**	**2,391,751**	**41,325,156**
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	707,864	12,444	21,738	48,851	790,897
Accrued payroll	-	495	-	1,154	1,649
Compensated absences	-	-	-	3,303	3,303
Accrued interest payable	140,843	-	65,929	3,751	210,523
Due to primary government	-	-	-	32,592	32,592
Deferred revenue	47,459	190	17,216	17,018	81,883
Capital leases	36,871	-	-	-	36,871
Bonds, notes payable and other obligations	422,634	-	168,320	15,163	606,117
Total current liabilities	**1,355,671**	**13,129**	**273,203**	**121,832**	**1,763,835**
Noncurrent liabilities:					
Compensated absences	-	-	-	94	94
Accrued interest payable	91,960	-	3,366	-	95,326
Due to primary government	-	-	-	15,531	15,531
Deferred revenue	-	-	-	28,263	28,263
Capital leases	262,159	-	-	-	262,159
Bonds, notes payable and other obligations	7,468,080	-	3,225,726	536,104	11,229,910
Retirement system net pension obligations	42,856	-	-	-	42,856
Post - employment benefits obligations	290,886	1,041	-	1,852	293,779
Liability for derivative instruments	437,147	-	1,259	21,305	459,711
Other noncurrent liabilities	239,156	-	-	16,742	255,898
Total noncurrent liabilities	**8,832,244**	**1,041**	**3,230,351**	**619,891**	**12,683,527**
Total liabilities	**10,187,915**	**14,170**	**3,503,554**	**741,723**	**14,447,362**
NET ASSETS					
Invested in capital assets, net of related debt	23,252,665	187	-	900,660	24,153,512
Restricted for:					
Other purposes	964,792	-	1,662,106	485,291	3,112,189
Unrestricted	(895,236)	22,628	220,624	264,077	(387,907)
Total net assets	**$ 23,322,221**	**$ 22,815**	**$ 1,882,730**	**$ 1,650,028**	**$ 26,877,794**

Statement of Revenues, Expenses and Changes in Net Assets

Component Units

Fiscal Year Ending June 30, 2010

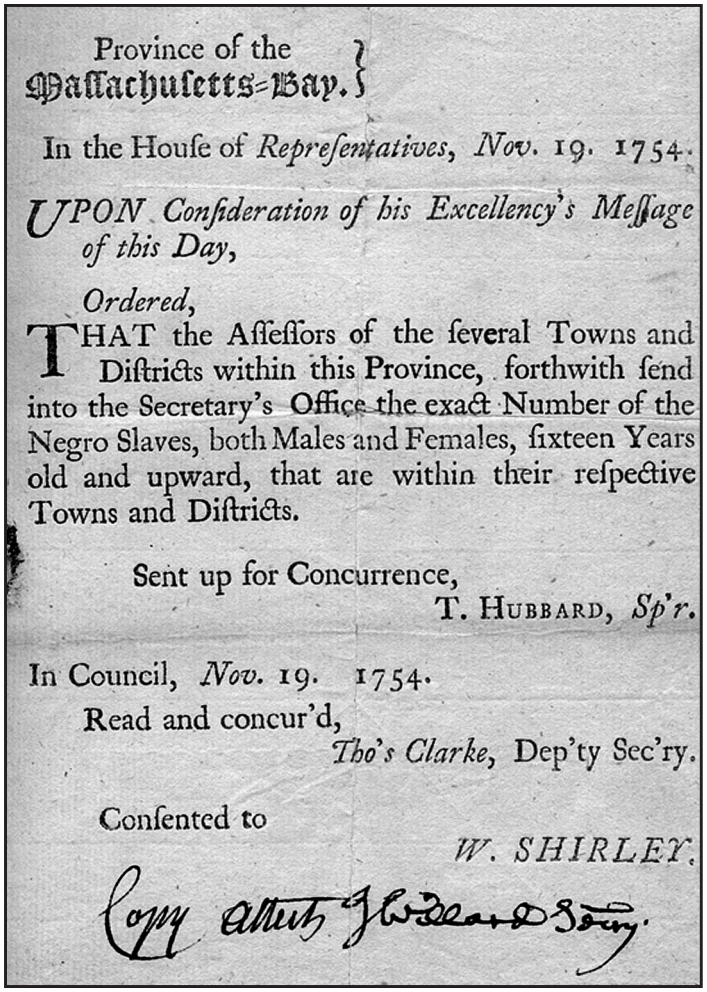
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Operating revenues:					
Intra entity activity	$ 262,331	$ 726,807	$ -	$ -	$ 989,138
Charges for services	593,299	74,127	5,181	151,511	824,118
Other	60,320	107	-	38,849	99,276
Total operating revenues	**915,950**	**801,041**	**5,181**	**190,360**	**1,912,532**
Operating expenses:					
Cost of services	2,351,292	792,454	272,473	240,827	3,657,046
Administration costs	708,635	3,670	5,726	97,256	815,287
Depreciation	786,359	67	-	52,891	839,317
Total operating expenses	**3,846,286**	**796,191**	**278,199**	**390,974**	**5,311,650**
Operating income (loss)	**(2,930,336)**	**4,850**	**(273,018)**	**(200,614)**	**(3,399,118)**
Nonoperating revenues (expenses):					
Operating grants	2,667,176	-	39,584	168,598	2,875,358
Interest income	25,443	136	130,955	11,304	167,838
Other nonoperating revenues (expenses)	(12,750)	-	-	(182,684)	(195,434)
Nonoperating revenues (expenses), net	**2,679,869**	**136**	**170,539**	**(2,782)**	**2,847,762**
Income (loss) before contributions	**(250,467)**	**4,986**	**(102,479)**	**(203,396)**	**(551,356)**
Capital contributions	-	-	178,096	185,715	363,811
Change in net assets	**(250,467)**	**4,986**	**75,617**	**(17,681)**	**(187,545)**
Net assets - beginning, as restated	23,572,688	17,829	1,807,113	1,667,709	27,065,339
Net assets - ending	**$ 23,322,221**	**$ 22,815**	**$ 1,882,730**	**$ 1,650,028**	**$ 26,877,794**

Elizabeth "Mum Bett" Freeman.
Watercolor on ivory
by Susan Anne Livingston Ridley Sedgewick, 1811.
Courtesy of the Massachusetts Historical Society

Mum Bett

Elizabeth Freeman, better known as Mum Bett, and her younger sister Lizzie were the slaves of John Ashley of Sheffield, Massachusetts. When Ashley's wife tried to strike Lizzie with a kitchen shovel, Mum Bett deflected the blow, seriously injuring her own arm. As a result of the incident, Mum Bett left the Ashley house, never to return. In 1781 she sued for her freedom and turned to a prominent attorney in Stockbridge, Theodore Sedgwick. Mum Bett may have been encouraged to pursue her suit after listening to a reading of the Declaration of Independence and hearing talk of the new Massachusetts Constitution.



Province of the
Massachusetts-Bay.

In the House of *Representatives*, *Nov.* 19. 1754.

UPON Consideration of his Excellency's Message of this Day,

Ordered,

THAT the Assessors of the several Towns and Districts within this Province, forthwith send into the Secretary's Office the exact Number of the Negro Slaves, both Males and Females, sixteen Years old and upward, that are within their respective Towns and Districts.

Sent up for Concurrence,
T. HUBBARD, *Sp'r.*

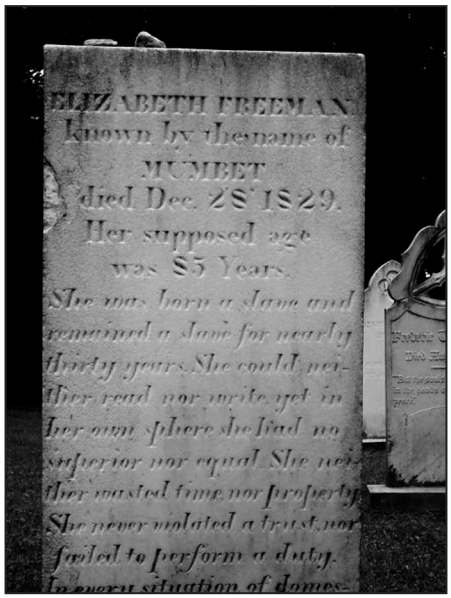
In Council, *Nov.* 19. 1754.
Read and concur'd,
Tho's Clarke, Dep'ty Sec'ry.

Consented to
W. SHIRLEY.

Copy attest J. Willard Secry.

John Ashley House in Sheffield where Mum Bett was Enslaved
Courtesy of The Massachusetts Judicial Branch

The legal case of Brom and Bett v. John Ashley, Esq. (a slave named Brom joined Mum Bett's suit) is one of the most important legal actions in the history of the Massachusetts courts. In the Court of Common Pleas in Great Barrington, Sedgwick argued that slavery was inconsistent with the new Massachusetts Constitution, which held that all individuals are **"free and equal."** The jury agreed and Mum Bett and Brom were set free.


ELIZABETH FREEMAN
known by thename of
MUMBET
died Dec. 28 1829.
Her supposed age
was 85 Years.
She was born a slave and
remained a slave for nearly
forty years. She could nei-
ther read nor write yet in
her own sphere she had no
superior nor equal. She nei-
ther wasted time nor property.
She never violated a trust nor
failed to perform a duty.

Gravestone of Mum Bett in the Sedgwick Family Plot,
Stockbridge Massachusetts
Courtesy of The Massachusetts Judicial Branch

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

A. Financial Reporting Entity – Basis of Presentation

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch, made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 57 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 16 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Further descriptions of component units are found in note 13 to the basic financial statements.

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth, but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the Massachusetts School Building Authority (MSBA), the Pension Reserves Investment Trust Fund (PRIT) and the Massachusetts Municipal Depository Trust (MMDT) are presented as a major governmental fund in the case of MSBA and as external investment trusts within the fiduciary type in the case of PRIT and MMDT.

Entities Audited Separately from the Commonwealth but are not legally separate from the Commonwealth – these entities include the Massachusetts State Lottery Commission, which is a division of the Office of the State Treasurer and Receiver–General, the Investment Accounts Managed by the Health Care Security Trust Board (the Board) – which includes a non-major governmental fund (the Health Care Security Trust Fund) and a fiduciary fund (the State Retiree Benefits Trust Fund). Hereafter, HST refers to investments managed by the Board.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business-type activities. These

include the University of Massachusetts System (including component units) and the State and Community College System of 9 state and 15 community colleges as well as the Massachusetts State College Building Authority, which is a blended component unit of the state college system. The various community and state colleges also have foundations and ancillary entities that are discretely presented component units of those entities.

Other Discretely Presented Component Units that are Separately Audited - Three major component units, the Massachusetts Department of Transportation (MassDOT), the Commonwealth Health Insurance Connector, and the Massachusetts Water Pollution Abatement Trust (MWPAT) are presented in the basic financial statements. There are eleven non-major component units.

The Massachusetts Department of Transportation

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth financial statements.

On June 25, 2009, the Commonwealth enacted legislation effective on November 1, 2009, implementing sweeping transportation reform and creating a new entity, the Massachusetts Department of Transportation (MassDOT). A new budgeted fund, the Commonwealth Transportation Fund, assumed most of the operations of the Highway Fund in FY10. The reform was implemented merging four state agencies: the Highway Department, Registry of Motor Vehicles, Massachusetts Aeronautics Commission and the Executive Office of Transportation and Public Works into the MassDOT.

MassDOT also absorbed the former Massachusetts Turnpike Authority, the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. The Massachusetts Bay Transportation Authority, as well as the Regional Transit Authorities, are now component units of MassDOT. The make up of the MassDOT Board and the Massachusetts Bay Transportation Authority are now identical, with the Secretary of Transportation chairing both Boards.

State Agencies and Authorities merged into Mass DOT

Commonwealth Departments and Agencies	Former Major Discrete Component Units	Former Non-major Discrete Component Units
• Massachusetts Highway Department	• Massachusetts Turnpike Authority (MTA)	• Regional Transit Authorities (15 entities)
• Massachusetts Aeronautics Commission	• Massachusetts Bay Transportation Authority (MBTA)	• Route 3 North Transportation Improvement Association (R3N)
• Registry of Motor Vehicles		
• Executive Office of Transportation and Public Works		

MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law as well as the Single State Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for their employee health care costs, which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are authorized by the legislature and controlled by the Executive Office of Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT.

Effect of the Creation of MassDOT on Governmental Net Assets
(amounts in thousands)

Governmental Net Assets June 30, 2010 - prior to MassDOT transfers		$ (13,389,389)
Fund perspective		
Governmental Funds		
Fund equity transfer	$ (504,739)	
Government-wide		
Central Artery Assets transfer	(6,983,458)	
Long-term liability due to the MTA	6,983,458	
Capital Assets net of depreciation	(8,537,983)	
Workers' Compensation liabilities transferred	13,232	
Compensated absences transferred	23,935	
OCIP liability	21,600	
Value of net assets transferred to MassDOT		(8,983,955)
Governmental Net Assets June 30, 2010 - after MassDOT transfer		$ (22,373,344)

Other liability and asset transfers affecting the fiduciary fund types include: MTA net pension liabilities assumed by the Commonwealth for $134.5 million and MTA OPEB liabilities assumed by the Commonwealth for $127.8 million.

The effect of MassDOT's creation on beginning component unit net assets is as follows (amounts in thousands):

Net assets, as previously reported……	$	11,288,684
Fund equity transfer……		504,739
Central Artery and other capital asset transfers……		15,521,441
Other……		(249,525)
Net assets as stated……	$	27,065,339

Details on these component units are presented in Note 13 to the Basic Financial Statements.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement 39: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

Availability of Financial Statements

The separately audited financial statements of the Commonwealth's component units and funds may be obtained by directly contacting the various entities. Contact the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

B. *Government – wide and Fund Financial Statements*

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

C. *Measurement Focus and Basis of Accounting*

Government–Wide Financial Statements

The **Statement of Net Assets** presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories.

Restricted net assets are used prior to unrestricted net assets.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business–type operations.

Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Governmental Activities – Government–wide financial statements are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental Funds – Fund financial statements account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year the materials are received, the grants are expended or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior to year end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

Business – Type Activities – Government–Wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for–profit business. The Commonwealth's institutions of higher education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund financial statements are presented on the same basis of accounting as the business-type activities in the government – wide financial statements. Post-employment benefits and refunds are recognized when due and payable.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth general laws to support specific governmental activities.

Debt Service Fund accounts for the accumulation of resources for and the payment of debt.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Permanent Funds account for resources that are legally restricted to the extent that earnings, but not principal may be used for the Commonwealth's programs. These are different than the private–purpose funds below as those benefit individuals, private organizations and other governments directly. The only permanent fund the Commonwealth has is the Massachusetts School Fund, established in 1834 as a fund "for the aid and encouragement of common schools." The fund was originally capitalized from the proceeds of the 1820's sale of the public lands upon which the State of Maine was created.

Proprietary Fund Types:

Business-Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Colleges and Community Colleges.

Fiduciary Fund Types:

Post-Employment Benefit Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post-employment benefit trust funds may be found in note 9 to the basic financial statements.

External Investment Trust Funds account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purposes specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

Commonwealth Transportation Fund (CTF), accounts for certain revenues including motor fuels taxes as well as fees, assessments and charges collected for the MassDOT and payments for debt service and program expenses of the department.

Lottery Funds, governmental funds, account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid.

The Massachusetts School Building Authority is presented as a governmental fund. This is comprised of the activity of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

Federal Grants Fund, accounts for grants and federal reimbursement programs.

Highway Capital Projects Fund is presented to account for proceeds of bonds sold to finance the construction of state highways and to fund the Commonwealth's share of federally sponsored highway construction.

The proprietary funds include the following:

Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

College and University Information, is presented here, aggregated by the University's activity, the State Colleges' activity and the Community Colleges' activity.

Fund Balances and Reserves of Fund Balances

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those that are authorized are discussed in note 8 to the basic financial statements, "Individual Fund Deficits." Reserves noted in balance sheets are amounts that are not available for further expenditure other than for the specific reserve purpose.

Reporting Standards

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund*

Accounting, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Fiscal Year Ends

All funds and discretely presented component units are reported using fiscal years, which end on June 30.

Program Revenue

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

Operating and non-operating revenues and expenses

Revenues and expenses of business-type activities and proprietary funds are classified as operating or non-operating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

D. *Cash and Short-Term Investments*

The Commonwealth follows the practice of pooling cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash portfolio and a Short Term Bond Fund. Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please feel free to contact the Trust's investment adviser at 800-392-6095, or James MacDonald, Deputy Treasurer, Cash Management Department, at 617-367-9333.

Statutes authorize investment in 2A-7 eligible obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Cash portfolio investments are carried at amortized cost, which approximates fair value.

Portions of the post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees' and Teachers' Public Employee Retirement Systems (PERS) are required to invest in the PRIT Fund and comprise approximately 40.7% and 45.2%, respectively, of the net assets of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities - primarily domestic and international equities and fixed income securities - as well as non-marketable securities - primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities, including the Short-Term Bond Fund component of MMDT, are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 22.7%, 22.7% and 20.2% of the net assets/fund balance of the State Employees' PERS, Teachers' PERS and the HST, respectively.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

MMDT's cash portfolio investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's shares are reported as short-term investments within their respective reporting categories.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

E. ***Receivables***

In general, tax revenue is recognized on the government-wide statements when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received by year–end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net assets.

"Other Receivables" represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY10 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been declared for $132 million, representing 50% of the amounts estimated to be received in FY11, adjusted for historical trends and included as part of other non-major governmental fund activity.

F. ***Due From Cities and Towns***

"Due from Cities and Towns" represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

During FY10, the outstanding balance of $48.6 million was repaid to the Commonwealth and deposited into an expendable trust for the purpose of providing scholarships for post-secondary education for graduates of Springfield public schools.

The MSBA has entered into various loan agreements with municipalities at a 2% interest rate to be received in equal installments through 2033. This program is designed to assist school districts with unanticipated inflationary construction costs over the district's original amount budgeted for a project. The loans outstanding as of June 30, 2010 were $89.5 million, of which $4.4 million is due in FY11. During FY10, the MSBA executed $17.6 million of new loans and collected $5.3 million of scheduled principal payments.

G. *Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

Methods used to value capital assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization policies

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Single pieces of equipment, vehicles, computer equipment and software that equal or exceed $50,000 ($1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds $100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

Type of Asset	**Estimated Useful Life (in years)**
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bikeways, etc.	25
Infrastructure - dams, water and sewer systems	50
Furniture	10
Library collections that are not historical treasures	15
Equipment, office equipment and life safety equipment	10
Computer hardware and software	3 to 7
Vehicles	5

Central Artery / Tunnel Project Assets

Effective November 1, 2009 all road and bridge assets including the balance of the Central Artery/Tunnel Project were transfered to MassDOT.

Construction in process

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

H. ***Interfund / Intrafund Transactions***

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. ***Statewide Cost Allocation Plan – Fringe Benefit Cost Recovery***

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine "central service" agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefit from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees, as well as MassDOT employees and retirees, through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance and workers' compensation activity is accounted for in the governmental funds.

J. ***School Construction Grants, Contract Assistance and other Payables***

The Commonwealth, through the MSBA, reimbursed cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. Under the former building assistance program (prior to the creation of the MSBA) the Commonwealth also continues to reimburse municipalities and regional school districts for 728 previously approved projects noted by MSBA as prior grant projects. The MSBA has assumed responsibility for these projects under its enabling statute. The liability for these projects will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings. In addition, the MSBA funds projects on a waiting list either via a lump sum or through progress payments. Each funding method has different eligibility requirements. Lump sum payment projects have a liability that is recognized once construction has started. For progress payment projects, a liability is generally recognized once a grantee requests reimbursement from the MSBA. Projects not recognized are noted as commitments by the MSBA. The MSBA is committed to paying for its share of projects on the waiting list once communities meet all eligibility requirements for receiving grants. The amount of commitments outstanding for the waiting list projects is $272.9 million and is anticipated to be funded under the progress payment method. New programs have been established by the MSBA under which communities submit monthly

requests for reimbursement. As of June 30, 2010, MSBA had $639.4 million commitments outstanding for the new program projects. The Commonwealth appropriates funds to support these commitments on an annual basis.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Water Pollution Abatement Trust (MWPAT). This assistance is applied as a subsidy to repayments from MWPAT loan borrowers. The expectation is that the assistance will be available for the life of the MWPAT financing agreement. The assistance is drawn from the Commonwealth on a 20-year repayment stream, even if the loan is for a longer period. If there is a differential between the assistance received and the amounts needed for loan subsidies, that amount is invested by MWPAT in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the MWPAT borrower is obligated for any shortfall.

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30th but paid for after year-end.

K. ***Compensated Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2010 but paid after the fiscal year end are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the business-type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

L. ***Dedicated Revenues and Pledges***

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities.

Federal grants that passed through the Federal Grants Fund represent the greatest source of dedicated revenues. A portion of these grants is dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001 and refunding notes issued in fiscal 2003. Total principal remaining to be paid on these federal grant anticipation notes is approximately $991.4 million. Maturities are from FY11 through FY15. Principal paid during FY10 was approximately $143 million.

Commonwealth gas taxes are partially pledged to fund highway construction. As of June 30, 2010, 6.86 cents of the total 21 cent per gallon gasoline tax is pledged to fund approximately $414 million of principal and approximately $143 million in interest on the outstanding debt as of June 30, 2010. These bonds mature from FY10 to FY23 and were sold in various series issued previous to FY10. Annual principal and interest on the bonds are expected to require less than approximately 30% of net current year pledged revenues. Principal and interest paid during FY10 amounted to approximately $35.5 million and $23.4 million, respectively. During FY09, the Governor approved legislation that authorizes the issuance of an additional $1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a

portion of the Commonwealth's accelerated structurally deficient bridge program. The legislation provides for a pledge of up to 10¢ of the 21¢ motor fuels excise tax to secure the outstanding special obligation bonds described above and the bridge program bonds.

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA) amounting up to 1% of applicable sales, respectively, for the authorities. Total dedicated sales tax revenue that was directed to the MBTA in FY10 was approximately $767 million. Dedicated revenues to the MBTA rise by the greater of the prior calendar year percentage increase in the consumer price index in Boston, or annual sales taxes, with a floor of 0% annually and a ceiling of 3%.

The MSBA also receives a pledge of sales tax that will increase to 1% of applicable sales in the Commonwealth by FY11. In FY10, approximately $605.2 million or 95% of the dedicated sales tax revenue stream was directed to the MSBA. This amount rises to 100% of the dedicated sales tax revenue stream in FY11 with no floor or ceiling.

The Commonwealth has also pledged surcharges from areas contiguous to convention centers, and the Worcester DCU Arena and Convention Center to support such centers' operations. Sales taxes within the Convention Center districts support approximately $643.7 million of outstanding principal and related premiums, approximately $560.8 million of interest on debts related to these Convention Centers. Taxes collected in FY10 were approximately $76.6 million, while debt service on the bonds was approximately $34.5 million.

Finally, as part of the Transportation Reform Act of 2009, as amended, a further pledge of sales taxes was made. Beginning in FY11, 0.385% of applicable sales and uses on a total tangible property tax rate of 6.25% will be dedicated to funding the operations of the Massachusetts Department of Transportation (MassDOT). The Act has a floor amount of $275 million, with a final transfer occurring on or before September 1st of the following fiscal year. Of the floor amount, $160 million will be dedicated to funding the operations of the MBTA while an additional $15 million will be dedicated to funding the operations of the regional transit authorities. These amounts will be transferred through the Commonwealth Transportation Fund.

M. ***Lottery Revenue and Prizes***

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net assets. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

N. ***Risk Financing***

The Commonwealth self-insures for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of

amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

O. ***Net Assets***

The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation.*" Otherwise, these balances are considered unrestricted.

Net assets have been restricted as follows:

"Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances that can only be used for capital projects under federal tax laws.

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 2*O* of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. In the Pension Trust Fund and the External Investment Trust Fund net assets have been restricted for employees' pension benefits. This restriction identifies resources held in trust for the members and beneficiaries of the Commonwealth's pension plans. This category also includes the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

"Restricted for Nonexpendable purposes" – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2010, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

Restricted for:	Governmental Activities	Business Type Activities	Government Wide Total
Unemployment benefits	$ -	$ 447,106	$ 447,106
Retirement of indebtedness	589,492	-	589,492
Restricted for other purposes including:			
Higher education endowment funds	-	308,656	308,656
Higher education academic support and programs	-	11,075	11,075
Higher education scholarships and fellowships:			
Nonexpendable	-	7,778	7,778
Expendable	-	12,534	12,534
Other nonexpendable purposes	-	27,968	27,968
Other	5,000	333,634	338,634
Total restricted net assets	$ 594,492	$ 1,148,751	$ 1,743,243

P. ***Reclassifications***

Certain amounts in the separately issued component units' financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. These amounts are presented as reclassifications in the combining statements for said component units. Due to the provisions of GASB Statement No. 34 (GASB 34) *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, major governmental and proprietary funds presented in a previous year may not be presented as a major fund in the current year. These changes were made because of internal changes in accounting policies.

Q. ***Estimates***

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

R. ***Adoption of New Accounting Standards and Restatements***

In FY10, the Commonwealth implemented Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Portions of Statement No. 53 convert Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported At Fair Value* on the Statement of Net Assets, to a Statement form. As a result of the implementation, the Commonwealth has reported a long-term liability of over $443 million offset by a deferred outflow of the same amount on the entity-wide financial statements. Also in FY10, the Commonwealth implemented Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB-51 had no significant impact on the Commonwealth's financial statements.

In FY11, the Commonwealth will implement Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Within the governmental funds only, fund balance will be reorganized to include identifications of amounts that are considered nonspendable, such as fund balance associated with inventories and permanent funds. Additional classifications of *restricted*, *committed, assigned* and *unassigned* amounts will be used based on the relative strength of the constraints that control how specific amounts can be spent. *Restricted* fund balances are those that can only be spent on specific purposes stipulated by the state constitution, external resource providers or through enabling statute. *Committed* balances are those that can be used only for actions authorized by the Commonwealth's highest level of decision–making authority. *Assigned* balances are to be used for specific purposes, but are not restricted or committed. *Unassigned* fund balances will only be shown in the General Fund

and will be those that are not restricted, committed or assigned. The effect of implementing this statement will be a reorganization of the fund balance section of the balance sheet for the governmental funds only and additional disclosure in the notes to the basic financial statements.

Restatements include changes in the beginning balances of various state and community colleges for miscellaneous operations and purposes. Other restatements include changes in component unit beginning balances as a result of MassDOT. The change is explained in Section A of this note.

2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

Primary Government-

The Commonwealth maintains cash in the MMDT Cash portfolio that is available for use by all funds. Each fund type's net equity in the Cash portfolio is displayed in the basic financial statements as "Cash and cash equivalents", and "short-term investments."

Pooled cash and short-term investments include the following (amounts in thousands):

	Governmental Activities	Business Type Activities	Government Wide Total
Cash and cash equivalents	$ 241,938	$ 437,292	$ 679,230
Short-term investments	2,295,328	334,710	2,630,038
Cash with fiscal agent	589,492	-	589,492
Total	$ 3,126,758	$ 772,002	$ 3,898,760

Lottery Annuity Contracts

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver – General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two ratings issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. At June 30, 2010, the Commonwealth held these investments with a face value of approximately $2.0 billion and with a carrying value of approximately $1.5 billion. Over 84% of these amounts are held in United States treasury strips at a custodial bank. No insurance company has an amount of annuities over 5% of the overall portfolio.

MSBA Deposits and Investments

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum

credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

As of June 30, 2010, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents	$	822,096
Cash and cash equivalents held in pooled cash		53,299
Restricted investments		598,501
Total	$	1,473,896

Custodial Credit Risk – Pooled Cash

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk.

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral. Eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver – General.

Membership by a financial institution in the Depositors Insurance Fund (DIF) or the Share Insurance Fund (SIF) will be accepted by the Treasurer and Receiver – General's Office as alternative security, provided that the financial institution submits proof of membership in the DIF or the SIF.

Custodial Credit Risk – HST

HST manages exposure to custodial credit risk by requiring all of its investment managers to hold investments in separate accounts with HST's custodian. As of June 30, 2010, HST held less than $100,000 in cash that was exposed to this risk.

Custodial Credit Risk – Business-Type Activities

The Institutions of Higher Education and their blended component units have investment policies that may vary by institution and blended component unit for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2010, the bank balances of uninsured deposits totaled approximately $148.0 million.

Custodial Credit Risk – MSBA

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as uninsured deposits. As of June 30, 2010, all MSBA bank balances were fully protected against loss.

Interest Rate Risk – Non – Post Employment Benefit Trust Funds

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short–term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury Cash Portfolio minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The Cash Portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

As of June 30, 2010, the MMDT Cash Portfolio is considered a cash equivalent by the Commonwealth. During the fiscal year, the fund's dollar-weighted average maturity fluctuated from 30 to 69 days.

Massachusetts General Laws authorize investments in the MMDT Cash Portfolio to include money market funds operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations or in any other security that qualifies for inclusion in a fund operated in accordance with the same Section.

Investments in the MMDT are classified as cash and short-term investments above and include the Short Term Bond Fund (the Fund) authorized under General Laws Chapter 29, Section 38. Investments in the Fund are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights. General Law Chapter 29, Section 49 enumerates the Commonwealth's policy of investments included in the MMDT cash portfolio and other escrows.

The HST manages exposure to fair value loss arising from movements in interest rates with its fixed income investment securities by having the PRIM Board establish duration guidelines. The guidelines with each individual manager require that the effective duration of the HST's domestic fixed investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. As of June 30, 2010, HST had approximately $75.5 million of debt investments at fair value, of which $29.0 million were invested in corporate bonds and other credits, all of which had weighted durations of more than five years and the remaining investments had an effective weight duration from .47 to 9.01 years.

For the Short Term Bond Fund, the weighted average maturity during the fiscal year fluctuated from 3.1 to 3.6 years. As of June 30, 2010, investments in the MMDT Short Term Bond Fund had a fair value of $287.4 million and investment maturities ranging from less than one year to more than ten years and with approximately 6% of the investment's fair values maturing in less than 1 year, approximately 81% from one to five years, approximately 4% from six to ten years and approximately 9% more than ten years.

Interest Rate Risk – Business - Type Activities

As of June 30, 2010, the Institutions of Higher Education and their blended component units had debt investments stated at fair value of approximately $793 million and had investment maturities ranging from less than one year to more than ten years, with approximately 61% of the investment's fair values maturing in less than 1 year, approximately 21% from one to five years,

approximately 12% from six to ten years, and approximately 6% more than ten years.

Interest Rate Risk - MSBA

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2010, the MSBA had approximately $226.5 million invested in guaranteed investment contracts and approximately $204 million invested in U.S. Treasury Bonds. These investments are recorded at fair value. These contracts mature at different times ranging from FY31 to FY39.

Credit Risk –Primary Government

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements.

The Cash Portfolio's assets will be invested only in First Tier and Second Tier Securities as defined by rule 2A-7. The Treasury does not have any additional policies regarding credit ratings of investments. Credit ratings associated with the Commonwealth's investment in MMDT for the cash portfolio ranged from P1 to P2, with approximately 99% rated P1 and approximately 1% rated P2 at fair value.

For the Short Term Bond Fund, investments were approximately 10% at AAA, approximately 14% from A to AA, approximately 15% BBB or below or unrated and approximately 61% held in US Government or Government Agency Obligations. Debt obligations issued or guaranteed by the U. S. Government, U. S. Government Agencies, and U. S. Government – sponsored enterprises are deemed to carry a AAA rating.

For the Institutions of Higher Education and their blended component units presented in the Business-Type Activities, fair values of debt investments were approximately $346 million at AAA, approximately $173 million from A to AA and approximately $274 million either unrated or BBB or less.

Credit Risk - MSBA

The MSBA's investments as of June 30, 2010 were not rated; however the issuers were rated AA or equivalent.

Credit Risk – HST

For the HST, the weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2010. For the fixed income securities of $75.5 million as of June 30, 2010 for the HST,

approximately $14.1 million was rated AAA, $11.6 million rated AA to A-, $15.7 million rated BBB to B- and $23.3 million either unrated or CCC or less.

Foreign Currency Risk – HST

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. HST manages exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and/or country holdings that must be within a certain percentage of predefined benchmarks. HST's investments in foreign currencies and foreign investments as of June 30, 2010 were approximately $0.5 million in cash and investments, $39 million in equities, $0.8 million in fixed income investments and $8 million in alternative investments.

Interest Rate Risk – PRIT Funds

As pension trust funds have a longer investment horizon than many of the Commonwealth's other investments, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately $10.2 billion at fair value with an effective weighted average duration range from 0.08 to 11.6 years at June 30, 2010.

Credit Risk – PRIT Funds

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The

weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2010.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately $3.3 billion, BBB to B- investments with a fair value of approximately $1.2 billion, $3.5 billion rated CCC to C-, unrated and the remaining $2.1 billion are investments that are explicitly backed by the U. S. Government.

Foreign Currency Risk – PRIT Funds

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by hedging a percentage of PRIT's non-U.S. dollar denominated investments through forward foreign currency contracts. The PRIT Fund's investments in foreign currency denominated investments as of June 30, 2010 were approximately $111 million in cash and investments, $10.5 billion in equities, $1.7 billion in fixed income investments and $2.0 million in alternative investments.

Concentration of Credit Risk – HST and PRIT

The PRIM Board manages HST's and PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percent of investment in any single issue or issuer.

MMDT, HST and PRIT have no investments at fair value that exceed 5% of HST or PRIT's net assets held in trust for pool participants as of June 30, 2010.

A. Derivative Instruments

HST and PRIT may invest in derivative transactions. In accordance with GASB 53, HST and PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

Forward Currency Contracts

The HST and PRIT enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contracts will fluctuate with changes in currency exchange rates. Risks may arise from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by HST and PRIT.

When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2010, HST had open foreign exchange contracts with combined net unrealized losses of approximately $2.1 million with various delivery dates from July to September. As of June 30, 2010, PRIT had open foreign exchange contracts with combined net unrealized gains of $14.1 million with various delivery dates.

Futures Contracts

The HST and PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that HST and PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The HST and PRIT may also invest in financial futures contracts for non-hedging purposes.

The HST held 50 financial futures contracts (and an additional twelve short contracts) at June 30, 2010, with various expirations during FY11. These contracts were mainly for Eurodollars, US Treasury securities and in the S&P 500 E-Mini Index. The total notional amount of these contracts as of June 30, 2010 was approximately $5.9 million, with an aggregated fair value as of that date of approximately $5.9 million, yielding an unrealized net gain of less than $1,000.

PRIT held 15,009 contracts outstanding at June 30, 2010 with various expirations from FY10 to FY11. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2010 was approximately $1.924 billion with a fair value of $1.849 billion, yielding an unrealized net loss of approximately $75.1 million.

Payments are made or received by PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the HST and Pension Trust Funds recognize a realized gain or loss.

Swaps – PRIT

PRIT has entered into several interest rate swap contracts for the purpose of hedging the floating-rate interest exposure of its financed real estate investments. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Variable-rate interest received is the Federal Funds Effective Rate with fixed rates paid ranging from 0.08% to 8.95%. Changes in fair value are included as part of investment income.

As of June 30, 2010, PRIT had contracts in effect with an aggregated notional amount of approximately $875.9 million to various investment banks that had maturity dates from FY10 to FY46. The contracts have an aggregate fair value loss of $18.9 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT has various other swap contracts outstanding as of June 30, 2010, that have similar purposes and valuation techniques to those previously disclosed. Counterparty exposure was with various major investment companies with ratings ranging from A to A+ and various other banks with other ratings. Open swap contracts as of June 30, 2010 were as follows (amounts expressed in thousands):

2010

Counterparty	Credit Ratings	Interest Rate Swaps Gross Notional	Interest Rate Swaps Fair Value	Credit Default Swaps Gross Notional	Credit Default Swaps Fair Value	Total Return Swaps Gross Notional	Total Return Swaps Fair Value
Goldman Sachs International	A	$ 39,119	$ (1,725)	$ 33,190	$ (640)	$ -	$ -
Credit Suisse	A	47,000	(4,375)	3,700	49	-	-
J.P. Morgan Securities Inc.	A+	41,717	524	9,200	172	-	-
Deutsche Bank Securities Inc.	A+	243,778	3,620	33,295	418	-	-
Bank of America Corp	A	67,200	(7,505)	10,800	(577)	-	-
Barclays Global Investors	A+	22,693	651	34,138	3	-	-
Morgan Stanley Capital	A	41,149	615	71,475	2,610	-	-
All others	Various	53,092	(154)	67,628	2,187	56,783	(14,817)
		$ 555,748	$ (8,349)	$ 263,426	$ 4,222	$ 56,783	$ (14,817)

B. Discretely Presented Component Unit Investments

Component units invest in derivative transactions. Some component unit derivative transactions have potential terminations due to the global credit crisis. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

The Governor approved legislation on August 11, 2008 authorizing the Secretary of Administration and Finance, with the approval of the Governor, to provide certain types of credit support for payment obligations of the MTA on certain bonds and interest rate swap agreements of the MTA. As of November 1, 2009, MTA became part of MassDOT and its operations are reported under MassDOT activity.

C. Component Unit Swapped Debt

At June 30, 2010, the interest rate swap held by MassDOT, with aggregate fair value liability of approximately $456.6 million. For complete details, see separately issued MassDOT financial statements.

3. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

Primary Government	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental receivables	$ 4,910,333	$ 2,012,543	$ 90,447	$ 1,635,486	$ 8,648,809
Business-type activity receivables	-	94,990	58,626	806,093	959,709
Less: allowance for uncollectibles	(1,690,908)	(41,770)	(3,410)	(1,472,474)	(3,208,562)
Receivables, net of allowance for uncollectibles	3,219,425	2,065,763	145,663	969,105	6,399,956
Less: current portion:					
Governmental activities	(2,528,070)	(1,922,569)	(5,267)	(298,307)	(4,754,213)
Business-type activities	-	(87,963)	(42,152)	(559,124)	(689,239)
Noncurrent receivables	$ 691,355	$ 55,231	$ 98,244	$ 111,674	$ 956,504

4. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations, largely for institutions of higher education. Activity between funds reflected as due to/from primary government in the various statements is summarized as follows (amounts in thousands):

Governmental funds:	General	Commonwealth Transportation	Lotteries	Federal Grants	Highway Capital Projects	Other Governmental Funds	Total
Transfers In:							
Debt service	$ -	$ -	$ -	$ -	$ -	$ 2,109,427	$ 2,109,427
Transfers in	1,788,690	275,000	-	9,000	-	1,843,906	3,916,596
Subtotal	1,788,690	275,000	-	9,000	-	3,953,333	6,026,023
Transfers Out:							
Appropriations	(886,762)	-	-	-	-	(1,822)	(888,584)
Transfer of bond proceeds	-	-	-	-	-	(99,814)	(99,814)
Debt service	(1,003,041)	(856,599)	-	-	-	(249,787)	(2,109,427)
Transfers out	(1,277,069)	(70,587)	(989,728)	(124,499)	(182,969)	(1,148,043)	(3,792,895)
Subtotal	(3,166,872)	(927,186)	(989,728)	(124,499)	(182,969)	(1,499,466)	(6,890,720)
Total governmental funds	**(1,378,182)**	**(652,186)**	**(989,728)**	**(115,499)**	**(182,969)**	**2,453,867**	**(864,697)**

Proprietary Funds:	University of Massachusetts	State Colleges	Community Colleges	Total
Transfers In:				
Transfers in from the General Fund and Other governmental funds	$ 479,699	$ 231,662	$ 277,037	$ 988,398
Transfers Out:				
Transfers out to the General Fund	(79,381)	(22,406)	(21,914)	(123,701)
Total proprietary funds	**400,318**	**209,256**	**255,123**	**864,697**
Net transfers in / (out) between funds	**$ (977,864)**	**$ (442,930)**	**$ (734,605)**	**$ (115,499)**	**$ (182,969)**	**$ 2,453,867**	**$ -**

Remaining receivables and payables between funds as of June 30, 2010 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2010. The amount due to the General Fund largely represents deficits funded by the General Fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2010:

Receivable Fund	Payable Fund	Amount
Governmental Funds:		
General	Federal Grants	$ 30,254
	Highway Capital Projects Fund	584,862
	Nonmajor Governmental Funds	29,506
Commonwealth Transportation Fund	General Fund	63,239
Non-major Governmental Funds	Nonmajor Governmental Fund	131,469
Total Governmental Funds		**$ 839,330**
Governmental Funds:	**Proprietary Funds:**	
General	University of Massachusetts	9,351
Total amounts due		**$ 848,681**

Central Artery/Tunnel Project

Under the Transportation Reform Act implemented during FY10, the assets of the Central Artery/Tunnel project and responsibility for operations and maintenance were transferred to MassDOT (refer to discussion in Note 1a).

The investments in capital assets noted below are net of capital assets transferred to MassDOT as part of the Commonwealth's transportation reform. During the fiscal year, effective November 1, 2009, MassDOT received from the Commonwealth capital assets with net book value of over $15.5 billion: $22.4 billion of capital assets, net of accumulated depreciation of over $6.9 billion. The majority of the assets transferred included all the roads and bridge infrastructure assets of the Commonwealth, including Central Artery/Tunnel assets. The following note shows capital assets transferred to MassDOT as decreases.

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2010 were as follows (amounts in thousands):

Primary Government ***Governmental Activities***	July 1, 2009 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2010 Ending Balance
Capital assets not being depreciated:				
Land	$ 727,900	$ 166,379	$ (1,899)	$ 892,380
Land transfer to MassDOT	110,951	-	(110,951)	-
Land Central Artery / Tunnel Project transfer to MassDOT	340,534	-	(340,534)	-
Construction in process - non - Central Artery / Tunnel Project	266,723	547,295	(361,030)	452,988
Construction in process - transfer to MassDOT	1,907,836	-	(1,907,836)	-
Total capital assets not being depreciated	3,353,944	713,674	(2,722,250)	1,345,368
Capital assets being depreciated:				
Buildings	4,744,688	309,467	(7,446)	5,046,709
Buildings transfer to MassDOT	66,058	-	(66,058)	
Machinery and equipment	842,703	154,802	(116,020)	881,485
Machinery and equipment transfer to MassDOT	83,658	-	(83,658)	
Infrastructure non - Central Artery / Tunnel Project	133,213	138,945	-	272,158
Infrastructure non - Central Artery / Tunnel Project transfer to MassDOT	12,098,088	-	(12,098,088)	
Infrastructure - Central Artery / Tunnel Project transfer to MassDOT	7,781,199	-	(7,781,199)	-
Total capital assets being depreciated	25,749,607	603,214	(20,152,469)	6,200,352
Less, accumulated depreciation:				
Buildings	(2,662,222)	(105,734)	8,188	(2,759,768)
Buildings transfer to MassDOT	(24,130)	-	24,130	-
Machinery and equipment	(540,692)	(97,299)	58,179	(579,812)
Machinery and equipment transfer to MassDOT	(73,219)	-	73,219	-
Infrastructure non - Central Artery / Tunnel Project	(109,022)	(98,459)	-	(207,481)
Infrastructure non - Central Artery / Tunnel Project transfer to MassDOT	(5,631,259)	-	5,631,259	-
Infrastructure - Central Artery / Tunnel Project transfer to MassDOT	(1,069,267)	(69,008)	1,138,275	-
Total accumulated depreciation	(10,109,811)	(370,500)	6,933,250	(3,547,061)
Total capital assets being depreciated, net	15,639,796	232,714	(13,219,219)	2,653,291
Governmental activity capital assets, net	$ 18,993,740	$ 946,388	$ (15,941,469)	$ 3,998,659
Business - Type Activities				
Capital assets not being depreciated:				
Land	$ 83,480	$ 20,900	$ 3,131	$ 101,249
Construction in process	399,657	368,559	305,915	462,301
Historical treasures	863	-	-	863
Total capital assets not being depreciated	484,000	389,459	309,046	564,413
Capital assets being depreciated:				
Buildings	4,382,605	392,888	(76,223)	4,851,716
Machinery and equipment	913,178	62,313	25,224	950,267
Library collections, not including historical treasures	125,810	14,341	8,580	131,571
Total capital assets being depreciated	5,421,593	469,542	(42,419)	5,933,554
Less, accumulated depreciation:				
Buildings	(1,983,869)	(154,563)	2,525	(2,135,907)
Machinery and Equipment	(612,051)	(75,375)	23,881	(663,545)
Library collections, not including historical treasures	(21,630)	(370)	471	(21,529)
Total accumulated depreciation	(2,617,550)	(230,308)	26,877	(2,820,981)
Total capital assets being depreciated, net	2,804,043	239,234	(69,296)	3,112,573
Business - type activity capital assets, net	$ 3,288,043	$ 628,693	$ 239,750	$ 3,676,986
Total Primary Government capital assets, net	**$ 22,281,783**	**$ 1,575,081**	**$ (15,701,719)**	**$ 7,675,645**

Depreciation expense was charged to the various functions of governmental activities as follows (amounts in thousands):

Function:	Amount
General government	$ 49,209
Judiciary	20,644
Energy and environmental	17,241
Health and human services	69,506
Transportation and public works	161,746
Early elementary and secondary education	110
Public safety and homeland security	51,512
Housing and economic development	115
Labor and workforce development	417
Total depreciation	$ 370,500

6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term borrowing does not meet long-term financing criteria, it is classified as a fund liability. Short-term borrowing may be issued as fixed rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth.

A. ***Credit Facilities***

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. During FY10, the Commonwealth borrowed by selling $300 million in commercial paper that remained outstanding for approximately one month. The commercial paper was retired when the Commonwealth borrowed by selling $1.2 billion in fixed-rate RANs in September 2009. All of the $1.2 billion in RANs were retired in April, May and June 2010.

B. ***Capital Projects Funds***

The Commonwealth may borrow by selling bond anticipation notes (BANs) to temporarily finance its capital improvements budget. BANs may be issued either as fixed-rate notes or through the Commonwealth's commercial paper program. In FY10, the Commonwealth sold $300 million in commercial paper BANs in December 2009 that remained outstanding for approximately two weeks, with repayment funded by a portion of the bond proceeds from the Series 2010 E bond sale. In late December 2009, $130 million of commercial paper BANs was issued and remained outstanding until April and May 2010. In March 2010, $150 million of commercial paper BANs was issued. All of these fixed-rate notes were redeemed with long-term bonds sold in fiscal 2010.

C. ***Credit Facilities***

During FY10, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling $800 million to $1 billion. The Commonwealth started fiscal 2010 with a total of five credit facilities to provide such liquidity support, each in the amount of $200 million. These facilities expire in periods at various times through 2015. One such facility expired in December 2009; the Commonwealth finished fiscal 2010 with four credit facilities supporting four series of commercial paper totaling $800 million. In addition, the Commonwealth maintains standby bond purchase agreements for various bond issuances sold from FY97 through FY06. As of June 30, 2010, these agreements total $1.6 billion.

The following schedule details short–term financing for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2009	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2010	Credit Limit June 30, 2010
General Fund:					
Revenue anticipation notes	$ -	$ 1,200,000	$ (1,200,000)	$ -	$ -
Commercial paper	-	300,000	(300,000)	-	-
Lines of Credit		-		-	1,624,000
Subtotal - General Fund activity	-	1,500,000	(1,500,000)	-	1,624,000
Capital Projects Funds:					
Bond anticipation notes	-	580,000	(580,000)	-	-
Subtotal - Capital Projects Funds activity	-	580,000	(580,000)	-	-
Total short-term financing and credit agreement activity	-	2,080,000	(2,080,000)	-	1,624,000
MSBA					
Commercial paper	455,000	-	(455,000)	-	-
Total primary government	$ 455,000	$ 2,080,000	$ (2,535,000)	$ -	$ 1,624,000

7. LONG-TERM OBLIGATIONS

Under the Massachusetts Constitution, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect hereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement. The Commonwealth can not file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2010, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of the Commonwealth's indebtedness, are backed by the full faith and credit of the Commonwealth. Special obligation bonds are bonds secured by all or a portion of a specific

revenue source and are not general obligations of the Commonwealth. The following is a summary of the Commonwealth's outstanding debt, (excluding unamortized discounts and premiums,) exclusive of capital leases, (amounts in thousands):

Type of Bond	Amount Outstanding
General Obligation Bonds	$ 17,882,227
Special Obligation Bonds, including GANs	2,060,968
Outstanding Commonwealth Bonds	19,943,195
MSBA debt	4,699,293
Total Governmental Activity debt	24,642,488
Less:	
Unamortized premiums and bond issuance costs on Commonwealth debt	(216,688)
Unamortized premiums on MSBA debt	(210,758)
Total Governmental Activity net of unamortized premiums debt	$ 24,215,042

General obligation (GO) bonds include not only such bonds, but also includes obligations for Build America Bonds (BABs) for $1.4 billion, and college opportunity bonds as well as debt assumed from former counties. Special obligation bonds include all notes and bonds secured by federal transportation reimbursements, a portion of the Commonwealth's motor fuel excise tax and bonds secured by certain taxes and fees levied.

The following is a table of the structure of general obligation bonds, (net of unamortized premiums and bond issuance cost of $199.7 million) that are outstanding as of June 30, 2010:

General Obligation Bonds	Amount	Percent of
Fixed Rate Bonds	$ 14,075,152	80%
Variable Rate Bonds	3,607,365	20%

The following is a table of the different types of variable rate general obligation bonds:

Variable Rate GO Bonds	Amount Outstanding	Percent of Total GO
Variable Rate Demand Bonds	$ 1,624,495	9%
Auction Rate Securities	401,500	2%
CPI-Index Bonds	197,455	1%
LIBOR Index Bonds	845,795	5%
SIFMA Index Bonds	538,120	3%

The following is a table of the different type of special obligation bonds currently outstanding:

Special Obligation Bonds	Amount Outstanding
Special Obligation Dedicated Tax Revenue Bonds	
Fixed Rate Convention Center Bonds	$ 557,125
CPI Variable Rate Convention Center Bonds	86,590
Total Convention Center Bonds	643,715
Special Obligation Revenue Bonds	
Fixed Rate Gas Tax Bonds	323,296
CPI Variable Rate Gas Tax Bonds	96,490
Total Gas Tax Bonds	419,786
Special Obligation Federal Highway Grant Anticipation Notes (GANS)	997,467
Total Special Obligation Bonds	2,060,968
Less: Unamortized Premiums and bond issuance costs, net	(16,978)
Outstanding Special Obligation Principal	$ 2,043,990

A. *General Obligation Bonds*

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth capital projects and Commonwealth supported local government improvements. The Commonwealth borrows by selling general obligation bonds and notes pursuant to Chapter 29 of the General Laws. The responsibility to borrow is statutorily delegated to the Office of the State Treasurer and Receiver-General, pursuant to Chapter 29. General obligation bonds are backed by the full faith and credit of the Commonwealth and are paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to bond authorizations and capital spending in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In addition, certain bonds are issued for specific programs approved by the Legislature. These bonds are known as College Opportunity Bonds. As of June 30, 2010, the Commonwealth had outstanding approximately $145.2 million in variable "U. Plan" bonds (at accreted value), sold in conjunction with a college savings program administered by the Massachusetts Educational Facility Authority (MEFA). These bonds bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of general obligation bonds have been sold as fixed rate obligations. As of June 30, 2010, approximately 80% of the Commonwealth's outstanding GO debt is fixed-rate bonds. The remaining 20% of outstanding GO debt is variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several variable rate structures. Most of the outstanding variable rate debt are variable rate demand bonds or VRDBs, or long-term bonds whose interest rates re-set daily or weekly through a remarketing process. Because these bonds offer bondholders a "put" or tender feature, they are supported by standby liquidity facilities provided by commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. As of June 30, 2010, the Commonwealth had $1.6 billion in outstanding VRDBs. This accounts for

approximately 9% of total general obligation debt and approximately 45% of total general obligation variable-rate debt. All of these bonds are uninsured. As of June 30, 2010, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the banks; consequently, there have not been any draws on a liquidity facility.

The Commonwealth has also issued general obligation variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a put feature and therefore do not require a supporting credit facility. The Commonwealth's auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers.

Auction Rate Failures During FY10

Beginning in February 2008, and continuing through fiscal 2010, several auctions of the Commonwealth's outstanding auction rate securities experienced auction failure, meaning there were insufficient bids from investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to bondholders is the failure rate as specified in the bond documents. For the four series of Commonwealth bonds whose auctions have experienced failed auctions (approximately $401 million in total outstanding debt obligations, including Commonwealth of Massachusetts General Obligation Bonds, Series 2000 D, 2000 E, 2000 F, and 2000 G), the failure rate is based on a multiple of the non-financial commercial paper rate, with a maximum failure rate of 12%. The failed auctions have resulted in interest costs that were consistently below budgeted debt service levels of 5%.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2010, the Commonwealth had approximately $197 million of bonds that pay interest based on the consumer price index (CPI), $846 million of bonds that pay interest based on the three-month London interbank offered rate (LIBOR) and $538 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 1%, 5% and 3% of total outstanding general obligation indebtedness, respectively.

MSBA Debt

As of June 30, 2010, the MSBA had outstanding approximately $4.5 billion of Dedicated Sales Tax bonds, plus approximately $200 million of unamortized premiums for the purpose of funding school construction and renovation projects. Interest on the bonds ranges from 4% to 5.7% and is payable semiannually each August 15 and February 15, until maturity in FY40.

B. Special Obligation Bonds

Commonwealth Transportation Fund (CTF) (formerly Highway Fund)

Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues credited to the Commonwealth Transportation Fund (CTF). Revenues, which are currently accounted for in the CTF, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including motor fuels excise taxes and Registry of Motor Vehicles fees. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of June 30, 2010, the Commonwealth had outstanding approximately $420 million of such special obligation bonds inclusive of unamortized premiums secured by a pledge of 10¢ of the 21¢ Commonwealth motor fuels excise tax. Of the total amount outstanding, approximately $96 million was issued as variable rate debt with interest rates tied to the consumer price index (CPI). These bonds have been hedged via a floating-to-fixed interest rate swap agreement in which the floating rate received from the swap counterparty matches the floating rate paid to bondholders.

Convention Center Fund.

Chapter 152 of the Acts of 1997, as amended, authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester Convention Center ($19 million). The bonds are payable from monies credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, approximately $644 million inclusive of unamortized premiums of which remained outstanding as of June 30, 2010. Of this amount, approximately $87 million was issued as variable rate debt with interest rates tied to the CPI. These bonds have been hedged via a floating-to-fixed interest rate swap agreement in which the floating rate received from the swap counterparty matches the floating rate paid to bondholders.

C. Federal Grant Anticipation Notes

The Commonwealth has issued three series of federal grant anticipation notes (not including a refunding) yielding aggregate net proceeds of $1.5 billion, the full amount authorized to finance the cash flow needs of the Central Artery/Tunnel (CA/T) project, in anticipation of future federal reimbursements.

The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges an additional 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

On July 16, 2003, the Commonwealth issued $408 million of special obligation refunding notes for the purpose of refunding approximately $418 million of outstanding federal grant anticipation notes that have a final maturity in December 2010. The escrows funded by crossover refunding notes and related premiums are used only to secure the principal related to the crossover refunding portion. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of either federal grants or appropriations. Interest on a portion of the newly issued refunding notes is paid from the proceeds of the escrow until the aforementioned prior notes are called for redemption. This crossover refunding results in economic savings to the Commonwealth similar to a traditional refunding, but does not meet the accounting definition of legal defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed from the debt of the Commonwealth. Accordingly, both the refunded debt and the refunding debt are reported as part of the outstanding debt of the Commonwealth until such time as principal amounts are repaid. Similarly, the refunding escrows established with the proceeds from the refunding notes are also recorded on the financial statements until such proceeds are expended for debt service. Pursuant to the crossover refunding method employed, interest on the notes will be paid solely by an escrow account established with the proceeds of the notes. Upon the redemption of $154 million of outstanding federal grant anticipation notes on the crossover dates in 2010, the refunding notes will become secured by the Grant Anticipation Note Trust Fund.

As of June 30, 2010, approximately $991 million of such notes, inclusive of the special obligation crossover refunding notes and unamortized premiums remained outstanding. All of these notes are fixed-rate obligations.

D. Interest Rate Swap Agreements – Objectives and Risks

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. For example, of the Commonwealth's variable-rate debt outstanding of approximately $3.6 billion (or approximately 20% of total general obligation debt), approximately $3.3 billion were synthetically fixed via floating-to-fixed interest rate swap hedge agreements. The remaining variable-rate debt of

approximately $340 million, or approximately 2% of the total outstanding general obligation debt, is un-hedged and, accordingly, floats with interest rates reset on a daily or weekly basis.

Under the terms of these floating-to-fixed rate hedge agreements, the counterparties to the swaps are obligated to pay the Commonwealth an amount equal or approximately equal to the variable-rate payment on the related bonds or a payment based on a market index and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. The floating rate received by the Commonwealth from swap counterparties is used to offset the variable rate paid to bondholders. Only the net difference in interest payments is actually exchanged with the counterparty. The net payments made or received on these agreements are reported as part of interest expense in the basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders.

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate GO refunding bonds in 1997, 1998, 2001, 2003, 2005, and 2007, the Commonwealth entered into interest rate swap agreements with certain counterparties to hedge against the volatility of the market interest rates. Additional swap agreements were entered into to hedge this volatility on certain special obligation bonds, including the Series 2005 Special Obligation Tax Revenue (Gas Tax) Bonds and the Series 2004 Special Obligation Dedicated Tax Revenue (Convention Center) Bonds. In addition, a floating-to-fixed rate swap agreement was transferred to the Commonwealth from the Route 3 North Transportation Improvements Association (secured by Commonwealth Contract Assistance) in November 2008 after the lease revenue bonds associated with that swap experienced remarketing failure. The swap was assigned to a portion of the Commonwealth's previously unhedged variable rate bonds that were outstanding.

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate swaps are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of June 30, 2010, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, pursuant to the implementation of GASB Statement No. 53.

The table on the following page details this activity.

Terms of the Interest Rate Swap Agreements

The bonds and related swap agreements have final maturities ranging from 2013 to 2037. The swaps' total notional value of approximately $3.5 billion effectively matches the par amount of the related variable rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.243% to 5.25% and receives variable rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

Credit Risk of the Interest Rate Swap Agreements

As of June 30, 2010, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swap's fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances. The Commonwealth is not required to post collateral in any of its existing swap agreements.

The chart below details the Commonwealth's outstanding swaps and related bond issuances (amounts in thousands except for percentages).

Associated Bond Issue	Notional Amounts Outstanding (thousands)	Effective Date	Fixed Rate Paid (Range)	Variable Rate Received	Fair Value at June 30 2010	Fair Value at June 30 2009	Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating
General Obligation Bonds:										
Series 1997B	$ 162,768	8/12/1997	4.659%	Cost of Funds	$ (16,634)	$ (16,218)	$ (416)	August 1, 2015	Goldman Sachs Mit Mar Der Prod	Aa1 / AAA
Series 1997B	108,512	8/12/1997	4.659%	Cost of Funds	(10,813)	(10,714)	(99)	August 1, 2015	Ambac Fin Svcs	Ba3 / BBB
Series 1998A	185,122	9/17/1998	4.174%	Cost of Funds	(18,008)	(15,532)	(2,476)	September 1, 2016	Citi Swapco, Inc	Aaa / AAA
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	277,683	11/17/2008	4.174%	60% 1-Month LIBOR +25 basis points	(28,367)	(27,535)	(832)	September 1, 2016	Deutsche Bank AG	Aa1 / A+
Series 2000A	108,808	8/16/2007	3.942%	SIFMA - 3 basis points	(12,535)	(8,028)	(4,507)	August 1, 2018	Merrill Lynch Cap Svcs	A2 / A
Series 2000A	54,492	8/16/2007	3.942%	SIFMA - 3 basis points	(6,135)	(3,841)	(2,294)	August 1, 2018	Bear Stearns Fin Prod / JP Morgan	Aa1 / AA-
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds	(67,728)	(44,120)	(23,608)	January 1, 2021	Morgan Stanley Der Prod	Aaa / AAA
Series 2003B	87,455	3/12/2003	4.500%	CPI based formula	(3,553)	(3,290)	(263)	December 1, 2014	Goldman Sachs Mit Mar Der Prod	Aaa / AAA
Series 2003B	10,000	10/2/2008	4.500%	CPI based formula	(286)	(282)	(4)	December 1, 2013	Deutsche Bank AG	Aa1 / A+
Series 2010A	536,685	3/15/2005	3.243% - 4.004%	SIFMA	(60,398)	(30,964)	(29,434)	February 1, 2028	Citibank N.A.	A1 / A+
Series 2006B, Series 2000D	294,000	4/2/2009	4.515%	67% 3-Month LIBOR	(82,056)	(66,340)	(15,716)	June 15, 2033	Barclays Bank PLC	Aa3 / AA-
Series 2006C	100,000	1/1/2007	3.73%-3.85%	CPI-based formula	(5,246)	(5,250)	4	November 1, 2020	Citibank N.A.	A1 / A+
Series 2007A	400,000	5/30/2007	4.420%	67% 3-Month LIBOR + 0.57%	(47,098)	(32,430)	(14,668)	May 1, 2037	Barclays Bank PLC	Aa3 / AA-
Series 2007A (refunding)	348,380	5/30/2007	4.083%	67% 3-Month LIBOR + 0.55%	(54,284)	(36,444)	(17,840)	November 2, 2025	Bank of NY Mellon	Aaa / AA
Series 2007A (refunding)	65,750	5/30/2007	3.936%	67% 3-Month LIBOR + 0.55%	(8,528)	(5,808)	(2,720)	November 1, 2018	Bank of NY Mellon	Aaa / AA
Series 2007A (refunding)	31,665	5/30/2007	3.936%	67% 3-Month LIBOR + 0.46%	(4,390)	(2,925)	(1,465)	November 1, 2022	Deutsche Bank AG	Aa1 / A+
Subtotal	3,267,545				(426,059)	(309,721)	(116,338)			
Special Obligation Dedicated Tax Revenue Bonds										
Series 2004 (Convention Center)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula	(2,831)	(3,201)	370	January 1, 2018	Goldman Sachs Cap Markets	Aa3 / A
Series 2004 (Convention Center)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula	(3,373)	(3,069)	(304)	January 1, 2018	JPMorgan Chase Bank	Aa1 / AA-
Series 2004 (Convention Center)	28,864	6/29/2004	4.45% - 5.25%	CPI-based formula	(3,373)	(3,069)	(304)	January 1, 2018	Bear Stearns / JP Morgan	Aa1 / AA-
Series 2005A (Gas Tax)	96,490	1/12/2005	4.771% - 5.059	CPI-based formula	(7,939)	(6,633)	(1,306)	June 1, 2022	Merrill Lynch Cap Serv	A2 / A
Subtotal	183,080				(17,516)	(15,972)	(1,544)			
Total	$ 3,450,625				$ (443,575)	$ (325,693)	$ (117,882)			

Fair value of the Interest Rate Swap Agreements

The Commonwealth adopted the provisions of GASB Statement No. 53, Accounting and Reporting for Derivative Instruments (GASB 53), for the year ended June 30, 2010. GASB 53 establishes a framework for accounting and reporting related to derivative instruments, requiring the fair value of derivative to be recognized in the financial statements. The aggregate fair value balance of interest rate swaps at June 30, 2010 is $444 million and is reflected on the statement of net assets as liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because all of the interest rate swaps were deemed effective qualified hedges, there was no impact on the Statement of Revenues, Expenditures and Changes in Fund Balances.

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower, as of June 30, 2010, than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2010 the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated if certain termination events occurred, as described herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

Basis and Market-Access Risk of the Interest Rate Swap Agreements

Because the terms on most of the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal or approximately equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not subject to significant basis risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds being hedged or the enactment of tax-related legislation which causes the related bonds to trade differently, certain of the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied from the basis for the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process. For certain other interest rate swap agreements, the variable rate on the swap is based on a market index that differs from the variable rate on the hedged bonds,

which is generally remarketed or auction rate. The Commonwealth is subject to basis risk on these agreements.

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bond being hedged by the $294 million swap with Barclays and the 2010A bonds being hedged by the $537 million swap with Citigroup. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

Termination Risk of the Interest Rate Swap Agreements

The swap contracts use the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swaps include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. The swap contracts require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth would have the option to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain certain credit ratings under the agreements, generally 'BBB-' or above. If the Commonwealth's rating fell below those levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as previously described. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

E. Outstanding Swapped Debt

Security for Interest Rate Swap Agreements

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged.

Debt service requirements to maturity for variable rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2010 are provided in the table below.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2010 for variable rate bonds. The net swap payments are calculated by subtracting the projected future variable rate interest payment per the swap agreement from the projected future synthetic fixed rate payment per the swap agreement. Projected future variable rate payments on the swap agreements are based on variable rates applicable to the scheduled payment nearest to June 30, 2010. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indicies. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2011	$ 27,122	$ 25,360	$ 122,466	$ 174,948
2012	125,679	24,992	118,232	268,903
2013	203,681	23,933	111,514	339,128
2014	158,653	22,563	105,641	286,857
2015	251,453	20,146	98,086	369,685
2016-2020	1,198,155	73,493	370,178	1,641,826
2021-2025	947,005	30,606	197,139	1,174,750
2026-2030	332,545	10,999	75,492	419,036
2031-2035	195,640	5,038	26,616	227,294
2036-2040	56,970	461	2,084	59,515
Total	$ 3,496,903	$ 237,592	$ 1,227,448	$ 4,961,942

Business - Type Activities – Swapped Debt

The university system has various swaps. At June 30, 2010, the fair value of liability of the universities outstanding interest rate swaps was $64 million.

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

Component Unit-Swapped Debt

At June 30, 2010, the majority of interest rate SWAPs outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately $456.6 million. For complete details, see separate MassDOT financial statements.

F. Outstanding Long Term Debt and Changes in Long Term Debt

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (excluding unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2010 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs	$ 991,370	2011-2015	$ -
Capital Projects:			
General	7,561,248	2011-2039	10,621,087
Highway	8,889,252	2011-2040	7,508,485
Local Aid	1,645,937	2011-2038	8,079
Other	638,700	2015-2034	27,334
	18,735,137		18,164,985
Subtotal - Governmental activities debt (exclusive of MSBA)	$ 19,726,507		$ 18,164,985
MSBA Debt	4,488,535		
Governmental activities debt	$ 24,215,042		

The amounts in the table above include 1.4 billion in taxable Build America Bonds.

Interest rates on the Commonwealth's debt outstanding at the end of FY10 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2010 are as follows (amounts in thousands):

	Governmental Funds Debt - Primary Government	MSBA	Governmental Funds Bonded Debt	Authorized Unissued
Balance July 1, 2009**	$ 19,264,569	$ 3,830,250	$ 23,094,819	$ 19,517,272
Plus: Increases in bonds authorized	-	-	-	84,604
Less: Authorizations deauthorized	-	-	-	(68,877)
General and special obligation bonds:				
Proceeds, as defined as principal, premium less discount and issuance costs	2,208,436	751,000	2,959,436	(1,368,014)
Less: Net premium	(2,663)	-	(2,663)	-
Less: Principal on refunding bonds	(536,685)	-	(536,685)	-
Less: Bonds retired	(1,207,150)	(92,715)	(1,299,865)	-
Outstanding debt June 30, 2010*	$ 19,726,507	$ 4,488,535	$ 24,215,042	$ 18,164,985

* Includes unallocated proceeds of approximately $602.6 million.

** Includes $68,000 beginning balance adjustment for GANS premium

Business - Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed $200,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2010, debt service requirements to maturity for principal and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

	Governmental Activities				Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt		Revenue Obligation	
Fiscal Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 1,418,800	$ 898,758	$ 93,145	$ 221,439	$ 133,473	$ 122,565
2012	1,343,669	832,361	94,505	217,486	75,471	119,323
2013	1,480,477	770,949	98,110	213,162	79,331	115,607
2014	1,293,047	706,732	98,865	208,546	82,643	111,992
2015	1,261,599	648,004	120,575	203,792	84,149	107,732
2016 - 2020	4,457,157	2,542,643	541,190	937,755	501,545	484,160
2021 - 2025	3,780,228	1,499,773	655,915	789,282	544,458	381,837
2026 - 2030	2,585,890	789,327	990,830	580,595	537,220	259,662
2031 - 2035	1,275,935	317,576	1,024,475	303,152	355,860	129,705
2036 - 2040	829,705	80,425	770,925	84,085	259,606	46,377
2041 - 2045	-	-	-	-	36,577	7,321
2046 - 2050	-	-	-	-	9,655	1,396
Total long - term debt	19,726,507	9,086,548	4,488,535	3,759,294	2,699,988	1,887,677
Less: Current portion	(1,418,800)	(898,758)	(93,145)	(221,439)	(133,473)	(122,565)
Long - term debt	$ 18,307,707	$ 8,187,790	$ 4,395,390	$ 3,537,855	$ 2,566,515	$ 1,765,112

G. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2010, approximately $8,161,519,000 of bonds outstanding from activities in prior fiscal years is considered defeased.

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY10 was approximately $17,183,261,000. Outstanding debt subject to the limit at June 30, 2010 was approximately $15,578,692,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Statutory debt June 30, 2010	$ 19,726,507
Less amounts excluded:	
Premium and issuance cost	216,688
Special obligation principal	(1,063,500)
GANs principal	(997,467)
County debt assumed	(225)
MBTA forward funding	(165,559)
SMART bonds	(894,502)
Central Artery / Tunnel	(1,243,250)
Outstanding direct debt	$ 15,578,692

I. Administration Debt Limit

During fiscal year 2009, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than $125 million through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration will treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and the debt service as a percentage of budgeted revenues.

Bond Cap (in millions except for percentages)

	Fiscal 2010
Bond Cap as approved by the Governor	$ 1,650
Total Debt Service Obligations	1,926
Budgeted Revenue	31,081
Debt Service as % of Budgeted Revenues	6.20%

J. Changes in Long-Term Liabilities

The following table summarizes changes in long-term liabilities for both governmental activities and business-type activities (amounts in thousands):

Changes in Long Term Liabilities - Governmental Activities: Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Tax refunds and abatements payable	$ 842,347	$ 813,199	$ 842,347	$ 813,199	$ 813,199
Accrued liabilities:					
Compensated absences	457,299	469,846	457,299	469,846	300,641
Compensated absences transfer to MassDOT	23,935	-	23,935	-	-
Claims and judgments	91,600	60,000	91,600	60,000	20,000
Prizes payable	1,522,440	1,484,794	1,522,440	1,484,794	-
Deferred loss on refunding	(44,495)	4,270	-	(40,225)	(4,270)
Due to component units - Central Artery/Tunnel Project	7,052,466	-	7,052,466	-	-
School construction grants payable	3,314,850	26,515	627,232	2,714,133	423,451
Contract assistance payable	45,446	-	45,446	-	-
Retirement system pension obligations	565,015	1,754,197	1,101,079	1,218,133	-
Post employment benefit obligations	1,149,000	1,953,000	1,149,000	1,953,000	-
Environmental remediation liability	173,830	2,710	8,333	168,206	10,737
Other liabilities	3,991,997	44,127,227	44,097,863	4,021,361	3,718,924
Total accrued liabilities	18,343,383	49,882,558	56,176,693	12,049,248	4,469,483
Liability for derivative instruments	-	443,575	-	443,575	-
Bonded Debt:					
Bonds and notes payable - non MSBA	19,264,569	2,208,436	1,746,498	19,726,507	1,418,800
Unamortized bond and note premiums - non MSBA	216,890	8,141	8,343	216,688	17,911
MSBA Bonds and notes payable excluding premium	4,285,249	751,001	547,715	4,488,535	93,145
Unamortized bond and note premiums - MSBA	217,663	14,244	21,149	210,758	15,235
Other financing arrangements:					
Capital leases	109,765	17,223	50,380	76,608	13,722
Total bonded debt and other financing arrangements	24,094,136	2,999,045	2,374,084	24,719,097	1,558,813
Long-term liabilities, Governmental activities	**$ 43,279,866**	**$ 54,138,377**	**$ 59,393,124**	**$ 38,025,119**	**$ 6,841,495**

Changes in Major Long Term Liabilities - Business - Type Activities: Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued liabilities:					
Compensated absences	$ 177,273	$ 21,049	$ 20,181	$ 178,141	$ 122,570
Environmental remediation liability	-	6,912	3,465	3,447	1,647
Total accrued liabilities	177,273	27,961	23,646	181,588	124,217
Bonded Debt:					
Bonds and notes payable, including Foundations and MSCBA	2,103,675	778,265	150,816	2,731,124	141,357
Bonds and notes payable	2,103,675	778,265	150,816	2,731,124	141,357
Other financing arrangements:					
Capital leases	58,885	3,341	21,302	40,924	9,863
Total bonded debt and other financing arrangements	2,162,560	781,606	172,118	2,772,048	151,220
Long-term liabilities, Business - type activities	**$ 2,339,833**	**$ 809,567**	**$ 195,764**	**$ 2,953,636**	**$ 275,437**

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2010, net of unamortized discounts and premiums, are as follows (amounts in thousands):

Discretely Presented Component Units			July 1, 2009 Beginning Balance	Increases	Decreases	June 30, 2010 Ending Balance	Due Within One Year	Long Term
Major component units:								
MassDOT (period beginning 11/01/2009)…….	2.00 - 5.65%	2011-2039	$ 7,823,672	$ 2,402,911	$ 2,335,869	$ 7,890,714	$ 422,634	$ 7,468,080
MWPAT …….	2.00 - 6.375%	2011-2037	3,597,861	197,923	401,738	3,394,046	168,320	3,225,726
Nonmajor component units	1.00 - 9.01%	2011-2034	554,470	30,776	33,979	551,267	15,163	536,104
Total bonds and notes payable			11,976,003	2,631,610	2,771,586	11,836,027	606,117	11,229,910
Compensated absences, net			3,276	3,397	3,276	3,397	3,303	94
Total long term liabilities ……			$ 11,979,279	$ 2,635,007	$ 2,774,862	$ 11,839,424	$ 609,420	$ 11,230,004

Further information on debt is found in the notes to the basic financial statements for the various component units.

8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type had fund deficits at June 30, 2010. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

Fund	Amount
Highway Capital Projects Fund.....	$ (707,331)
Federal Highway Construction Program Capital Projects Fund.....	(20,540)
Community Preservation Trust Fund.....	(109)
Government Land Bank Fund.....	(35,033)
Capital Improvement and Investment Trust Fund.....	(94)

Some of the funds above are consolidated within supplementary information. The Commonwealth may fund these deficits with appropriations, or in the case of capital funds, proceeds from bond issuances or payments from third parties.

9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

A. *Plan Descriptions*

Primary Government

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System). The members of the retirement systems do not participate in the Social Security System.

The Massachusetts *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former MTA employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to the SERS. The SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited financial report.

The Massachusetts *Teachers' Retirement System* (MTRS) is a defined benefit PERS managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities towns, regional school districts and Quincy College. Consequently, the Commonwealth reports the MTRS as a single employer PERS with special funding responsibilities. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. Benefits are recorded when due and payable.

Membership – Membership in SERS and MTRS as of January 1, 2008, the date of the most recent valuation, is as follows:

	SERS	MTRS
Retirees and beneficiaries currently receiving benefits	52,486	53,951
Terminated employees entitled to benefits but not yet receiving them	3,779	N/A
Subtotal	56,265	53,951
Current members	85,839	88,673
Total	142,104	142,624

Boston teachers are members of the State Boston Retirement System (SBRS) and are not included in this membership data.

B. ***Benefit Provisions***

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

C. ***Funding and Contributions Policy***

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

D. *Other Financing Situations*

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston Teachers as certified by the SBRS. Those costs were funded in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. The SBRS is a cost sharing multiple employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at 617-635-4305. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. In June 2010, the Commonwealth made its final arrears payment to the City of Boston ($132 million) as well as the actuarially required contribution ($126.8 million) to SBRS.

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS and TRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

The Commonwealth is financially responsible for the cost of living adjustment (COLA) granted to participants in various retirement systems of cities, towns and counties in fiscal year 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLAs as of January 1, 2010 was $302,000,000.

The policy for post-retirement benefit increases for all retirees of the SERS, MTRS, for those participants who serve in the City of Boston's School Department in a teaching capacity and COLAs of local governments is subject to legislative approval.

The total contributions required for SERS and TRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

A table of Pension Funding Progress is presented as supplemental information on page 137 of this report.

Member contributions vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975……	5% of regular compensation
1975 - 1983……	7% of regular compensation
1984 to 6/30/1996……	8% of regular compensation
7/1/1996 to present……	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present……	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present……	An additional 2% of regular compensation in excess of $30,000

Schedule of Annual Required Contributions and Calculation Methodology

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2025 on the basis of 4.50% annual growth. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of $1.376 billion were made during the fiscal year ended June 30, 2010. Of this amount $76.0 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately $242.8 million represents payments for Boston Teachers.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they are not less than:

· Normal cost plus amortization of net pension obligation cost
· Interest and amortization on any unfunded prior service costs

The Commonwealth contributed approximately 100% of its annual required contribution in FY10.

The following table presents the FY10 annual pension cost components and changes thereon, exclusive of cost of living adjustments (amounts in thousands):

	SERS	MTRS	Total
2010			
Annual required contribution	$ 646,932	$ 1,106,052	$ 1,752,984
Interest on net pension obligation	(709)	47,322	46,613
Adjustment to annual required contribution	690	(46,090)	(45,400)
Annual pension cost	646,913	1,107,284	1,754,197
Less: Contributions made, excluding COLAs	410,682	690,397	1,101,079
Increase (decrease) in net pension obligation	236,231	416,887	653,118
Net pension obligation / (asset) - beginning of year	(8,589)	573,604	565,015
Net pension obligation / (asset) - end of year	$ 227,642	$ 990,491	$ 1,218,133
2009			
Annual pension cost	$ 695,604	$ 1,150,782	$ 1,846,386
Percentage of annual pension cost contributed	57%	68%	64%
Net pension obligation / (asset) - end of year	$ (8,589)	$ 573,604	$ 565,015
2008			
Annual pension cost	$ 360,904	$ 730,418	$ 1,091,322
Percentage of annual pension cost contributed	128%	111%	108%
Net pension obligation / (asset) - end of year	$ (306,711)	$ 203,848	$ (102,863)

E. ***Funded Status and Funding Process***

The funded status of SERS and MTRS as of January 1, 2010, the most recent actuarial valuation date, is as follows (dollar amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
State Employees Retirement System						
Actuarial Valuation as of January 1, 2010	$ 19,019,062	$ 24,862,421	$ 5,843,359	76.5%	$ 4,711,503	124.0%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2010	$ 21,262,462	$ 33,738,966	$ 12,476,504	63.0%	$ 5,509,698	226.4%

* The covered payroll amount approximate the employer payroll

The following displays the Schedule of Net Assets and the Schedule of Changes in Net Assets for the SERS, the MTRS and the SRBTF as of June 30, 2010, (amounts in thousands):

	Pension Trust Funds			
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ASSETS				
Cash and short-term investments	$ 82,485	$ 20,321	$ -	$ 102,806
Investments at fair value:				
Absolute Return	-	-	46,801	46,801
Domestic Equity	7,348,525	7,965,092	-	15,313,617
Fixed Income	3,863,828	4,291,033	70,637	8,225,498
International Equity	-	-	42,241	42,241
Private Activity	1,841,777	2,045,413	128,564	4,015,754
Hedge fund-of-funds	1,593,290	1,769,453	-	3,362,743
Real Estate	1,534,129	1,703,750	-	3,237,879
Timber and Other Natural Resources	408,170	453,300	15,580	877,050
Other	322,265	334,086	4,843	661,194
Total investments at fair value	16,911,984	18,562,127	308,666	35,782,777
Other receivables	235	80,809	1,144	82,188
Total assets	**16,994,704**	**18,663,257**	**309,810**	**35,967,771**
LIABILITIES				
Accounts payable	2,049	3,352	6,317	11,718
Total liabilities	**2,049**	**3,352**	**6,317**	**11,718**
Net assets available for post - employment benefits	**$ 16,992,655**	**$ 18,659,905**	**$ 303,493**	**$ 35,956,053**

	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contribution:				
Employer contributions	$ 443,658	$ 933,274	$ 372,000	$ 1,748,932
Employee contributions	475,591	593,147	-	1,068,738
MTA retiree funds	176,478	-	-	176,478
Total contributions	**1,095,727**	**1,526,421**	**372,000**	**2,994,148**
Net investment gain (loss):				
Net Investment gain (loss), net of management fees	1,945,724	2,112,888	34,085	4,092,697
Total investment gain (loss)	**1,945,724**	**2,112,888**	**34,085**	**4,092,697**
Total additions and investment gain (loss)	**3,041,451**	**3,639,309**	**406,085**	**7,086,845**
DEDUCTIONS				
Administration	7,842	15,831	1,596	25,269
Retirement benefits and refunds	1,431,646	2,146,929	371,999	3,950,574
Payments to State Boston Retirement System	-	126,871	-	126,871
Total deductions	**1,439,488**	**2,289,631**	**373,595**	**4,102,714**
Net increase (decrease)	**1,601,963**	**1,349,678**	**32,490**	**2,984,131**
Net assets available for post - employment benefits at beginning of year	15,390,692	17,310,227	271,003	32,971,922
Net assets available for post - employment benefits at end of year	**$ 16,992,655**	**$ 18,659,905**	**$ 303,493**	**$ 35,956,053**

F. ***Additional Actuarial Information***

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability (AALs) for benefits.

Additional information as of the latest actuarial valuation is as follows:

1. The annual required contribution for 2010 was determined as part of the January 1, 2010 actuarial valuation using the entry age normal cost method.

2. The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.25% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year.

3. Salary increases are based on analyses of past experience but range from 4.5% to 10.0% depending on group and length of service.

4. The assumptions do not include post-retirement benefit increases, which are taken into account when granted under amendments to General Laws.

   The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased–in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc, so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.

5. The remaining amortization period for the unfunded pension liability at January 1, 2010 was 15 years to FY25.

On October 30, 2008, in order to implement voluntary budget reductions and address the remainder of budgetary deficiencies, the Commonwealth enacted supplemental budget legislation including an extension of the Commonwealth's pension funding schedule from 2023 to 2025.

G. ***Commonwealth Post Employment Obligations Other than Pensions (OPEB)***

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-

Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust Fund (SRBTF).

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The MTA OPEB liability for its 1,057 active members and 979 retirees was last valued in June of 2008 at $179.5 million (1.18% of the Commonwealth liability). These liabilities are included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. That trust had a balance of $59.4 million as of June 30, 2010. The trustees have yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets.

The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The FY10 General Appropriation Act transferred approximately $372 million to the Trust for the purpose of benefits payments. No further contributions were made.

Funding Policy

Employer and employee contribution rates are set in General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2010 and as of the valuation date (January 1, 2010 for the Commonwealth and June 30, 2008 for the MTA), Commonwealth participants contribute 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the FY11 General Appropriation Act, all active employees will pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY10 totaled approximately $372 million. There are approximately 145,971 participants eligible to receive benefits at June 30, 2010.

Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress

The Commonwealth and the MSBA are not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of Statement No. 45 and under Commonwealth general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2010, the Commonwealth's annual OPEB contribution of approximately $372 million for retiree benefits was less than the ARC. The Commonwealth's annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBTF and the net OPEB obligation for the Commonwealth for fiscal year 2010 are as follows from the valuation calculated as of January 1, 2010 (amounts in millions except percentages):

2010	SRBTF
Annual required contribution (ARC)	$ 1,163
Interest on net OPEB obligation	53
Adjustment to annual required contribution	(40)
Annual OPEB cost (AOC)	1,176
Less: Contributions made	(372)
Increase in net OPEB obligation	804
Net OPEB obligation as reported at beginning of year	1,149
Net OPEB obligation - end of year	$ 1,953
2009	
Annual OPEB cost	$ 1,345
Percentage of annual OPEB cost contributed	26%
Net OPEB obligation - end of year	$ 1,149

The funded status of the Commonwealth's OPEB obligation is as follows: (amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2010	$ 309,800	$ 15,166,300	$ 14,856,500	2.0%	$ 4,711,563	315.3%

The MSBA's ARC for FY10 was approximately $2.9 million. Including the adjustment to the annual required contribution, the net annual OPEB cost for the MSBA was approximately $53,000. The MSBA's net OPEB obligation at June 30, 2010 approximated the ARC. MSBA made no contributions during FY10. Based on an actuarial valuation as of January 1, 2009, the MSBA had an unfunded actuarial accrued liability of approximately $2.9 million and had no plan assets. This amount is included as part of other governmental activities liabilities in the Statement of Net Assets. Therefore the entire amount is unfunded. Covered payroll of active plan members was approximately $3.0 million, yielding an unfunded actuarial accrued liability as a percentage of covered payroll of 82.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBTF and the annual required contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and

those non-Commonwealth governments that participate in GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5% after seven years.

Administrative expenses are expected to rise 5% per annum. The Commonwealth's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis for a period of thirty years, increasing at a rate of 4.5% per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as RSI on page 137.

10. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY10, these additions are approximately $17.2 million. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2010 (amounts in thousands):

	Governmental Activities					Business - Type Activities			
	Capital Leases		Operating	MSBA Operating	Governmental Activities	Capital Leases		Operating	Business -Type Activities
Fiscal Year Ended June 30	Principal	Interest	Leases	Leases	Total	Principal	Interest	Leases	Total
2011	$ 13,722	$ 3,871	$ 152,717	$ 705	$ 171,015	$ 9,863	$ 1,438	$ 20,803	$ 32,104
2012	11,687	3,299	109,051	722	124,759	7,915	1,096	18,504	27,515
2013	9,207	2,598	86,269	740	98,814	7,054	837	16,661	24,552
2014	6,272	1,770	67,881	758	76,681	5,732	605	14,072	20,409
2015	5,734	1,617	52,686	448	60,485	3,363	404	12,042	15,809
2016 - 2020	15,050	4,247	153,684	-	172,981	3,473	1,299	26,785	31,557
2021 - 2025	13,154	3,711	51,300	-	68,165	2,573	640	1,452	4,665
2026 - 2030	1,782	502	47,384	-	49,668	951	-	1,229	2,180
2031 - 2035	-	-	27,315	-	27,315	-	-	-	-
Total lease obligations	76,608	21,615	748,287	3,373	849,883	40,924	6,319	111,548	158,791
Less: current portion:	(13,722)	(3,871)	(152,717)	(705)	(171,015)	(9,863)	(1,438)	(20,803)	(32,104)
Long - term lease obligations	$ 62,886	$ 17,744	$ 595,570	$ 2,668	$ 678,868	$ 31,061	$ 4,881	$ 90,745	$ 126,687

11. COMMITMENTS

A. ***Primary Government***

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2010, totaling approximately $743.2 million.

The MBTA's Forward Funding legislation of 1999 provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. As of June 30, 2010, the University of Massachusetts Building Authority has committed debt of approximately $1.5 billion, of which approximately $144.7 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately $824.6 million of outstanding debt, of which approximately $25.4 million is guaranteed by the Commonwealth.

B. ***Saltonstall Building***

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building (Building) and its surrounding area. Under the provisions of MDFA's bond authorization, the Building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the Building and leased half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the Building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents.

However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are due upon occupancy and are subject to annual appropriation.

C. ***Other Construction Commitments***

At June 30, 2010, the Commonwealth had commitments of approximately $216 million related to ongoing construction projects.

D. ***Contractual Assistance to Authorities***

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as: (a) general obligation contract assistance; (b) budgetary contractual assistance liabilities; or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such

assistance constitutes a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These contingent liabilities consist of guarantees and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor during FY09, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority (succeeded by MassDOT in FY10) with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority (succeeded by MDOT) in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

E. *MSBA*

The MSBA has estimated the amount of outstanding Waiting List and other program commitments at June 30 to be approximately $912 million.

12. CONTINGENCIES

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability due within a year to be approximately $20,000,000 as of June 30, 2010.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2010 is estimated to be $293,400,000, of which approximately $38,440,000 is expected to be paid during FY11.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY10 totaled approximately $152,163,000. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

A. *Tobacco Settlement*

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than $200 billion over the first 25 years, subject to various offsets, reductions and adjustments. In FY10, the Commonwealth received approximately $263,700,000 or 79.9% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund. Amounts received in FY10 continued to be less than had previously been projected as payments under the MSA. The Commonwealth's allocable share of the total base amounts payable under the MSA is approximately 4.05%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is nearly $7.6 billion, subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA, and certain manufacturers withheld payments to the states due in FY06 and FY07. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from the claimed downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee

amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2009, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through arbitration payments.

B. ***Workers' Compensation and Group Insurance Liabilities***

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2010, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately $293 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY10 and FY09 were (amounts in millions):

	FY10	FY09
Claim liability, beginnng of year	$ 307.1	$ 273.5
Increase in liability estimate	35.2	81.7
Payments and decreases in liability estimate	(35.7)	(48.1)
MassDOT transfer	(13.2)	-
Claims liability, end of year	$ 293.4	$ 307.1

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of $129.9 million, net of the employees' reserve of $20.4 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY10 and FY09 were (amounts in millions):

	FY10	FY09
Claim liability, beginnng of year	$ 113.7	$ 107.0
Increase in liability estimate	1,044.6	976.9
Payments and decreases in liability estimate	(1,061.2)	(970.2)
Claims liability, end of year	$ 97.1	$ 113.7

C. ***Other Claims & Judgments***

The following amounts were recognized for claims and judgments as of June 30, 2010 (amounts in thousands):

	2010	2009
Unpaid claims, beginning of year……	$ 91.6	$ 68.2
Incurred claims……	13.5	61.1
Claim payments and reductions……	(23.5)	(37.7)
MassDOT transfer-OCIP ……	(21.6)	-
Unpaid claims end of year……	$ 60.0	$ 91.6

D. ***Environmental Remediation***

Governmental Accounting Standards Board Statement No 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49) became effective in FY09. GASB 49 provides guidance in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Commonwealth to search for pollution, it does require the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;
- The Commonwealth is found in violation of a pollution-related permit or license;
- The Commonwealth is named, or has evidence that it will be named, as a responsible party by a regulator;
- The Commonwealth is named, or has evidence that it will be named in a lawsuit to enforce a cleanup;
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the Commonwealth. Several Commonwealth agencies have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The Commonwealth has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities.

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform continuous monitoring of polluted sites. Since the monitoring for such sites is perpetual, undiscounted multi-year costs for such sites have not been estimated. Because of a lack of information about the type and extent of the remediation effort that could be required, no range of outlays for the overall remediation effort for such sites could be developed at this time.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in

revisions to these estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During the fiscal year, the Commonwealth had the following activity related to GASB 49 (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government-Wide Total
Environmental remediation liability, beginnng of year……	$ 173,889	$ 3,150	$ 177,039
Expected additional future outlays, increasing liability estimates……	2,650	3,597	6,247
FY10 outlays for environmental remdiation ……	(8,683)	(3,300)	(11,983)
Estimated recoveries from third parties……	350	-	350
Environmental remediation liability, end of year……	$ 168,206	$ 3,447	$ 171,653

The Boston Harbor Clean–Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. The Massachusetts Water Resources Authority (MWRA) which is not a component unit and not a related organization of the Commonwealth, has primary responsibility for developing and implementing a court-approved plan for the construction of treatment facilities necessary to achieve compliance with the federal requirements. The cost of initial construction of water treatment facilities required under the federal district court's order amounts to approximately $4.5 billion so far. Going forward, MWRA anticipates spending an additional $188.5 million on initial construction and for remaining work on Combined Sewer Overflow projects. This figure does not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system upgrades, retrofits, and replacements.

Massachusetts Military Reservation. The Commonwealth through various departments has been engaged with various sectors of the federal government including the federal Department of Defense regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal trustees and others claim that the Commonwealth and others may be liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

Closed State Facilities. The Commonwealth has 17 facilities which contain a total of 235 buildings, mainly in closed state hospitals that may have varying degrees of asbestos, polychlorinated biphenyl (PCB's) and other compounds that are currently in a dormant state. The Commonwealth typically sells these facilities at minimal cost to private developers who assume full responsibility for any sort of cleanup activity. Cost estimates are only performed during the sale process. At this time, the Commonwealth has no estimate of any potential asset that would be developed from these activities that would ready these sites for sale.

13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED

Component Units and Details of Departments and Entities that are separately audited

The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 16 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2010 fiscal year end) (entities marked with an * are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

Entities Audited by KPMG LLP:

The Massachusetts School Building Authority (MSBA)
The Pension Reserves Investment Trust Fund (PRIT)
*The Massachusetts State Lottery Commission
*The Accounts Managed by the Health Care Security Trust Board (HST)
The Massachusetts Department of Transportation (MassDOT)
The Massachusetts Water Pollution Abatement Trust (MWPAT)
Commonwealth Health Insurance Connector Authority

*Community Colleges:
- Bunker Hill Community College
- Greenfield Community College
- Holyoke Community College
- Middlesex Community College
- Springfield Technical Community College

Entities Audited by Other Auditors:

*The Massachusetts Municipal Depository Trust (MMDT)
*The University of Massachusetts System

*Community Colleges (in addition to the five Community Colleges audited by KPMG LLP, above):

- Berkshire Community College
- Bristol Community College
- Cape Cod Community College
- Massasoit Community College
- Massachusetts Bay Community College

Mount Wachusett Community College
Northern Essex Community College
North Shore Community College
Quinsigamond Community College
Roxbury Community College

Community College component units:

Berkshire Community College Foundation
Bristol Community College Foundation
Bunker Hill Community College Foundation
Cape Cod Community College Educational Foundation, Inc.
Greenfield Community College Foundation, Inc.
Holyoke Community College Foundation
Massachusetts Bay Community College Foundation, Inc.
Massasoit Community College Foundation
Middlesex Community College Foundation, Inc.
North Shore Community College Foundation
Springfield Technical Community College Foundation
The Mount Wachusett Community College Foundation, Inc.
The Northern Essex Community College Foundation, Inc.
The Quinsigamond Community College Foundation, Inc.
The Roxbury Community College Foundation, Inc.

*State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Massachusetts College of Art
Massachusetts Maritime Academy
Massachusetts College of Liberal Arts
Salem State College
§Westfield State College
Worcester State College

State college component units:

Bridgewater State College Component Units:
- The Bridgewater State College Foundation
- The Bridgewater Alumni Association of Bridgewater State College

Fitchburg State College Foundation, Inc.
Framingham State College Foundation, Inc.
Massachusetts College of Art Foundation, Inc.
Massachusetts College of Liberal Arts Foundation, Inc.
The Massachusetts Maritime Academy Foundation, Inc.
Salem State College Component Units:
- The Salem State College Foundation, Inc.
- Salem State College Assistance Corporation

Westfield State College Foundation, Inc.
Worcester State Foundation

Massachusetts Convention Center Authority (MCCA)

§Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Economic Development Entities (7 separate entities) including:

Massachusetts Clean Energy Center (CEC)
Massachusetts Community Development Finance Corporation (MCDFC)
Commonwealth Corporation
§Community Economic Development Assistance Corporation (CEDAC)
Massachusetts Life Sciences Center
§Massachusetts Housing Partnership (MHP)
§Commonwealth Zoological Corporation (Zoo)

Descriptions of Major and Blended Component Units and Entities that are Legally Separate from the Commonwealth:

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

The Massachusetts School Building Authority (MSBA) is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Any deficiency in the sales tax revenue was born by the Commonwealth up to a minimum floor that was adjusted annually by Commonwealth statute through FY09. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

The Pension Reserves Investment Trust Fund (PRIT) is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net assets totaling approximately $5.5 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net assets is approximately $4.2 billion at June 30, 2010, and is reported as an external investment trust within the fiduciary fund type.

The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver–General, operates the Commonwealth's lottery. The net assets of the Commission and results thereon are presented as a major governmental fund.

The Accounts Managed by the Health Care Security Trust Board (HST) are the long-term investment account of the Health Care Security Trust, a nonmajor governmental fund and the State Retiree Benefits Trust Fund, a fiduciary fund. The HST is the recipient of tobacco settlement remittances to the Commonwealth. The HST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HST. The HST utilizes certain resources and staff of PRIM.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business–type activities. These systems include:

The University of Massachusetts System including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. The University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc. and the University of Massachusetts Foundation, Inc.

The State and Community College System including the 9 state and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit of the state college system).

Other Discretely Presented Component Units that are Separately Audited – Discrete component units are entities which are legally separate (often called Authorities) but financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

Major component units:

The Massachusetts Department of Transportation (MassDOT) incorporates the MTA and has jurisdiction over the MBTA and the RTAs. The Massachusetts Port Authority will become a related organization to MassDOT.

The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

Commonwealth Insurance Connector Authority administers the Commonwealth health insurance programs to facilitate subsidized health insurance for individuals without access to employer-sponsored health insurance as well as offer an affordable commercial health insurance product named Commonwealth Care to small businesses that are eligible for the program.

14. SUBSEQUENT EVENT

A. Subsequent Bond Issuances

Subsequent to the close of the fiscal year, the Commonwealth sold $285.985,000 in bonds in August 2010 ($120,390,000 General Obligation Refunding Bonds 2010 Series B and $165,595,000 General Obligation Bonds Consolidated Loan of 2010, Series C); $358 million in bonds in August 2010 ($358,000,000 General Obligation Bonds Consolidated Loan of 2010, Series D); $350 million in bonds in November 2010 ($350,000,000 General Obligation Bonds Consolidated Loan of 2010, Series E); and $1.06 billion in bonds in December 2010 which included $380,530,000 Special Obligation Refunding Notes (Senior Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2010 Series A, and $576,125,000 Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2010 Series A and $100,000,000 in Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A. Some of the bonds sold subsequent to the close of the fiscal year were sold as tax-exempt bonds, some were sold as Build America Bonds (direct pay to issuer), and some were sold as Recovery Zone Economic Development Bonds (direct pay to issuer).

In addition, on September 8, 2010, the Commonwealth novated its swap agreement with Ambac Financial Services, LLC initially entered into with respect to the Commonwealth's General Obligation Refunding Bonds, 1997 Series B. As part of the novation, Ambac Financial Services, LLC transferred all of its rights, liabilities, duties and obligations with respect to such swap to SMBC Capital Markets, Inc (rated 'A', 'Aa2', and 'A+' by Fitch Ratings, Moody's Investor Services, and Standard & Poor's respectively). The Commonwealth pays a fixed rate of 4.65950% to SMBC and SMBC pays the Commonwealth a variable rate equal to the SIFMA Index.

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Required Supplementary Information Other than Management Discussion and Analysis

Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual
Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for Budgetary Funds on a Budgetary Basis and GAAP Basis
Notes to Required Supplementary Information – Budgetary Reporting
Schedule of Pension Funding Progress –Last Ten Fiscal Years
Schedule of Post Employment Benefit Funding Progress – State Retiree Benefits Trust Fund

The 6th Regiment in Baltimore
Massachusetts State House Mural
Courtesy of the Massachusetts State House

Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

Budgeted Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	$ 17,524,619	$ 17,524,619	$ 17,171,378	$ (353,241)
Assessments	-	-	417,335	417,335
Federal grants and reimbursements	8,278,000	8,278,000	8,548,836	270,836
Departmental	2,629,800	2,629,800	2,179,794	(450,006)
Miscellaneous	15,000	15,000	443,040	428,040
Total revenues	**28,447,419**	**28,447,419**	**28,760,383**	**312,964**
Other financing sources:				
Fringe benefit cost recovery	-	-	281,807	281,807
Lottery reimbursements	-	99,632	88,938	(10,694)
Lottery distributions	-	863,369	893,806	30,437
Tobacco settlement transfer	-	292,000	263,678	(28,322)
Operating transfers in	2,071,400	602,399	299,342	(303,057)
Stabilization transfer	-	214,000	217,843	3,843
Commonwealth transportation transfer	-	-	275,000	275,000
Total other financing sources	**2,071,400**	**2,071,400**	**2,320,414**	**249,014**
Total revenues and other financing sources	**30,518,819**	**30,518,819**	**31,080,797**	**561,978**
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature	72,483	69,920	59,453	10,467
Judiciary	759,619	787,453	767,178	20,275
Inspector General	2,735	2,735	2,734	1
Governor and Lieutenant Governor	5,256	5,498	5,245	253
Secretary of the Commonwealth	41,471	48,044	47,819	225
Treasurer and Receiver-General	154,698	191,522	175,894	15,628
Auditor of the Commonwealth	17,967	16,709	16,708	1
Attorney General	39,296	40,851	40,558	293
Ethics Commission	1,731	1,731	1,574	157
District Attorney	92,647	93,052	92,792	260
Office of Campaign & Political Finance	1,222	1,222	1,175	47
Sheriff's Departments	257,412	404,363	370,254	34,109
Disabled Persons Protection Commission	2,223	2,223	2,150	73
Board of Library Commissioners	24,978	24,680	24,672	8
Comptroller	11,356	11,353	11,080	273
Administration and finance	1,722,428	1,757,816	1,683,109	74,707
Energy and environmental affairs	217,036	216,603	202,602	14,001
Health and human services	4,818,386	4,784,977	4,689,785	95,192
Transportation and public works	-	189,941	66,701	123,240
Executive office of education	1,903,050	435,702	435,702	-
Massachusetts department of transportation	206,861	1,737,951	1,717,211	20,740
Public safety and homeland security	1,035,171	1,114,817	1,075,883	38,934
Housing and economic development	326,834	371,017	359,078	11,939
Labor and workforce Development	76,413	82,396	42,237	40,159
Direct local aid	4,806,224	4,837,441	4,837,371	70
Medicaid	8,972,284	9,291,193	9,286,565	4,628
Post employment benefits	-	1,748,619	1,748,619	-
Debt service:				
Principal retirement	1,049,214	1,067,274	1,048,610	18,664
Interest and fiscal charges	899,123	843,703	811,030	32,673
Total expenditures	**27,518,118**	**30,180,806**	**29,623,789**	**557,017**
Other financing uses:				
Fringe benefit cost assessment	-	62,000	8,013	53,987
Operating transfers out	-	55,994	124,740	(68,746)
Commonwealth care transfer	-	592,000	631,685	(39,685)
Medical assistance transfer	-	399,000	313,295	85,705
Commonwealth transportation transfer	-	275,000	275,000	-
Stabilization transfer	-	214,000	217,843	(3,843)
Total other financing uses	**-**	**1,597,994**	**1,570,576**	**27,418**
Total expenditures and other financing uses	**27,518,118**	**31,778,800**	**31,194,365**	**584,435**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**3,000,701**	**(1,259,981)**	**(113,568)**	**1,146,413**
Fund balances (deficit) at beginning of year	1,016,636	1,016,636	1,016,636	-
Fund balances (deficits) at end of year	**$ 4,017,337**	**$ (243,345)**	**$ 903,068**	**$ 1,146,413**

Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):

	General	Commonwealth Transportation
REVENUES		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	$ 27,234,238	$ 1,187,169
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Tax revenue	187,322	3,547
Federal reimbursements and other receivables	124,622	(843)
Reclassifications:		
Higher education revenue is reclassified for GAAP reporting	(67,271)	-
Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting	269,072	-
Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	27,747,983	1,189,873
Non-Budgeted Activity	-	-
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 27,747,983**	**$ 1,189,873**
EXPENDITURES		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	$ 27,969,530	$ 1,380,735
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Medicaid payments	125,900	-
Compensated absences and other accrued liabilities	(93,174)	(9,177)
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	241,881	-
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	(1,003,041)	(856,599)
Higher education expenditures are reclassified for GAAP reporting	(954,033)	-
Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	26,287,063	514,959
Non-Budgeted Activity	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 26,287,063**	**$ 514,959**
OTHER FINANCING SOURCES		
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule	$ 2,034,015	$ 275,000
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	11,269	-
Adjustments:		
Consolidation of transfers between funds	(220,623)	-
Inflows from component units and other miscellaneous financing sources	(18,748)	-
Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,805,913	275,000
Non-Budgeted Activity	-	-
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 1,805,913**	**$ 275,000**
OTHER FINANCING USES		
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule	$ 1,288,338	$ 70,587
Adjustments and Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	209,354	-
Consolidation of transfers between funds	(220,623)	-
Budgetary higher education amounts are reclassed to transfers under the modified accrual basis	886,762	-
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	1,003,041	856,599
Outflows from component units and other miscellaneous financing sources	-	-
Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	3,166,872	927,186
Non-Budgeted Activity	-	-
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 3,166,872**	**$ 927,186**

Note to Required Supplementary Information – Budgetary Reporting

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. An example of this is the lack of a budget for pension costs.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY10 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 27 of the Acts of 2009:		
Direct appropriations	$ 30,518,819	$ 26,577,279
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2009	-	940,839
Total original budget	30,518,819	27,518,118
Supplemental Acts of 2009:		
Chapter 56	-	10,000
Chapter 65	-	24,970
Chapter 102	-	217,291
Chapter 166	-	(23,858)
Chapter 186	-	41,962
Supplemental Acts of 2010:		
Chapter 86	-	196,693
Chapter 112	-	64,585
Chapter 120	-	202,952
Authorized budgets and transfers for MassDOT	-	407,876
Planned Savings - Chapter 29, Section 9C	-	(223,672)
Total as of June 30, 2010	30,518,819	28,436,917
Supplemental Acts of 2010, passed after June 30:		
Chapter 359	-	37,124
Total budgeted revenues and expenditures per Legislative action	30,518,819	28,474,041
Plus: Transfers of revenues and expenditures (including rounding)	-	3,304,759
Budgeted revenues and expenditures as reported	$ 30,518,819	$ 31,778,800

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

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Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

Pension Funding Progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
State Employees' Retirement System						
Actuarial Valuation as of January 1, 2010….	$ 19,019,062	$ 24,862,421	$ 5,843,359	76.5%	$ 4,711,563	124.0%
Actuarial Valuation as of January 1, 2009….	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.8%
Actuarial Valuation as of January 1, 2008….	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
Actuarial Valuation as of January 1, 2007….	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
Actuarial Valuation as of January 1, 2006….	16,638,043	20,406,926	3,768,883	81.5%	4,200,577	89.7%
Actuarial Valuation as of January 1, 2005….	16,211,000	19,575,000	3,364,000	82.8%	3,967,000	84.8%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2010….	$ 21,262,462	$ 33,738,966	$ 12,476,504	63.0%	$ 5,509,698	226.4%
Actuarial Valuation as of January 1, 2009….	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%
Actuarial Valuation as of January 1, 2008….	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%
Actuarial Valuation as of January 1, 2007….	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%
Actuarial Valuation as of January 1, 2006….	18,683,295	27,787,716	9,104,421	67.2%	4,819,325	188.9%
Actuarial Valuation as of January 1, 2005….	17,683,000	26,167,000	8,483,000	67.6%	4,643,000	182.7%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to http://www.mass.gov/perac/valuation/2010commonwealth.pdf. Alternatively, copies of the Commonwealth's actuarial valuation reports may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: 617-666-4446.

State Retiree Benefits Trust Fund

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2010….	$ 309,800	$ 15,166,300	$ 14,856,500	2.0%	$ 4,711,563	315.3%
Actuarial Valuation as of January 1, 2009….	273,500	15,305,100	15,031,600	1.8%	4,712,655	319.0%
Actuarial Valuation as of January 1, 2008…..	-	9,812,000	9,812,000	0.0%	4,574,233	214.5%

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.

6th Regiment

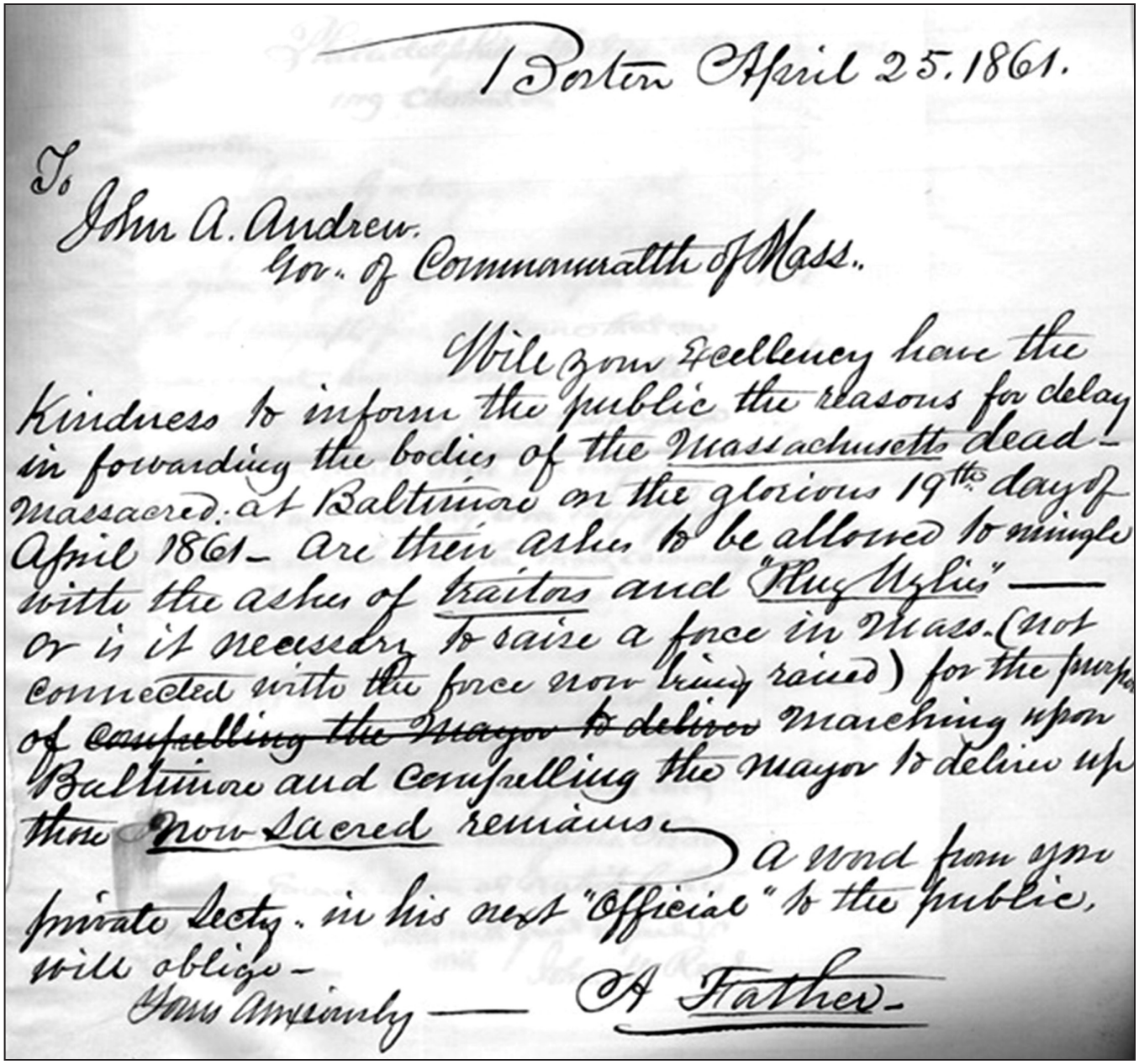
Governor Andrew mobilized militia units and organized a departure ceremony at the State House. One day later news came that a mob had attacked the 6th Regiment while changing trains in Baltimore. Four were killed, the first Union casualties in the Civil War.

This poignant and angry letter was written anonymously to Governor Andrew from the father of one of the 6th Regiment soldiers. He demands return of the bodies. Andrew had already requested that the mayor of Baltimore return them to Massachusetts, preserved on ice.

Massachusetts Archives

Luther C. Ladd and Addison O. Whitney, of the Lowell based 6th Regiment, were among the first four soldiers killed in the Civil War. They are wearing "Shako" hats, used by militia units early in the war.

Courtesy of the Lowell Historical Society



Boston April 25. 1861.

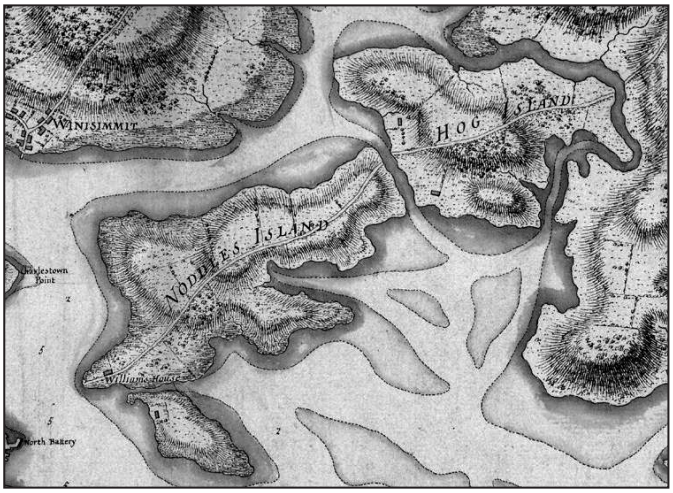
To
John A. Andrew.
Gov. of Commonwealth of Mass.

Will your Excellency have the kindness to inform the public the reasons for delay in forwarding the bodies of the Massachusetts dead— massacred at Baltimore on the glorious 19th day of April 1861— Are their ashes to be allowed to mingle with the ashes of traitors and "Rhy Uzlis" —— or is it necessary to raise a force in Mass. (not connected with the force now being raised) for the purpose of ~~compelling the Mayor to deliver~~ marching upon Baltimore and compelling the Mayor to deliver up those now sacred remains ——— A word from your private Secty. in his next "Official" to the public, will oblige—

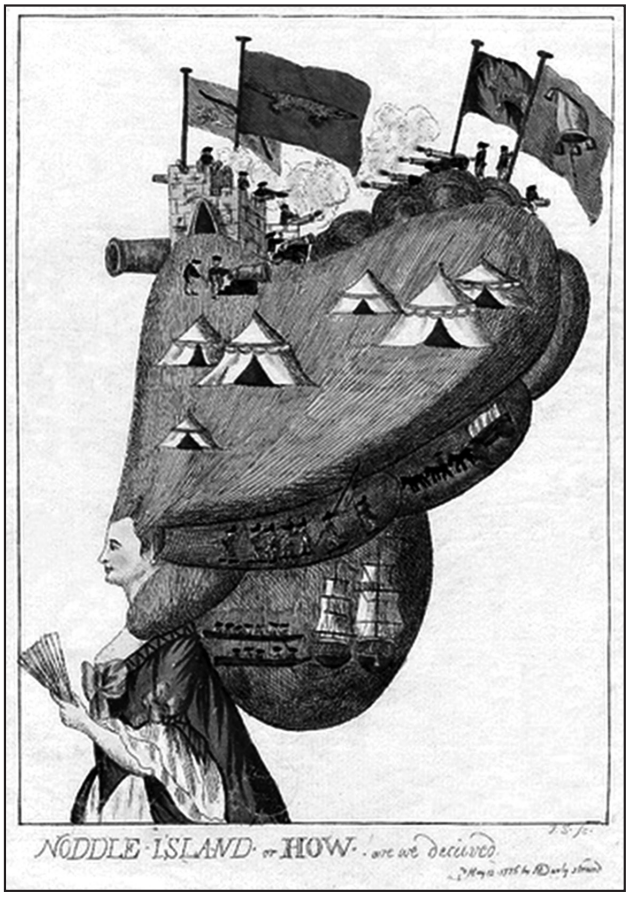
Yours Anxiously —— A Father—

Other Supplementary Information

Combined Balance Sheet – Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds
Combining Statement of Net Assets Available for Pension Benefits
Combining Statement of Changes in Net Assets Available for Pension Benefits
Combining Statement of Net Assets Held in Trust for Pool Participants
Combining Statement of Changes in Net Assets Held in Trust for Pool Participants
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Combining Statement of Net Assets – Nonmajor Component Units
Combining Statement of Revenues, Expenses and Changes in Net Assets –Nonmajor Component Units



Noddle's Island, Hog Island, and Winisimmet, from an old chart of Boston Harbor



Courtesy of the Massachusetts Historical Society

Call it Macaroni

This satire mocks the British Evacuation of Boston. The woman's dress and hairstyle reflect a London fashion called "Macaroni." In the popular song "Yankee Doodle" a provincial American thinks he can simply "stick a feather in his cap and call it macaroni."

As a term Doodle first appeared in the early seventeenth century, and is thought to derive from the Low German dudel or dödel, meaning "fool" or "simpleton". The Macaroni wig was an extreme fashion in the 1770s and became contemporary slang for foppishness.

On May 27, 1775 at Noodle Island, the HM Armed Schooner Diana was the first British vessel captured and destroyed by colonial forces during the American Revolutionary War.

Combined Balance Sheet

Other Governmental Funds

June 30, 2010

(Amounts in thousands)

	Special Revenue							
	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Grant Anticipation Note Trust	Expendable Trust	Other
ASSETS								
Cash and short-term investments	$ 175,167	17,849	$ -	$ 82,967	$ 84,958	$ 34,081	$ 473,273	$ 295,770
Cash with fiscal agent	-	-	-	-	73,695	344,592	-	-
Receivables, net of allowance for uncollectibles:								
Taxes	12,522	74	-	49,289	10,242	-	-	8,178
Due from federal government	-	-	-	-	-	112,172	1,179	343
Loans receivable	-	-	-	-	-	-	914	-
Other receivables	50,077	1	131,972	-	-	-	33,103	15,853
Due from other funds	-	-	-	-	-	-	-	-
			-	-				
Total assets	**$ 237,766**	**$ 17,924**	**$ 131,972**	**$ 132,256**	**$ 168,895**	**$ 490,845**	**$ 508,469**	**$ 320,144**
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 38,060	$ 318	$ -	$ 11,594	$ 27,557	$ -	$ 33,591	$ 55,503
Accrued payroll	82	187	-	-	-	-	2,636	2,019
Tax refunds and abatements payable	-	-	-	320	-	-	-	-
Due to other funds	-	-	-	-	-	131,469	-	-
Due to component units	-	-	-	120,342	-	-	-	-
Deferred revenue	38,650	-	-	-	-	-	15,566	-
Other accrued liabilities	91,948	-	-	-	-	-	-	-
Total liabilities	**168,740**	**505**	**-**	**132,256**	**27,557**	**131,469**	**51,793**	**57,522**
Fund balances (deficits):								
Reserved for retirement of indebtedness	-	-	-	-	73,695	344,592	-	-
Reserved for permanent trust funds	-	-	-	-	-	-	-	-
Undesignated:					-			
Special revenue	69,026	17,419	131,972	-	67,643	14,784	456,676	262,622
Capital projects	-	-	-	-	-	-	-	-
Fund balances (deficits)	**69,026**	**17,419**	**131,972**	**-**	**141,338**	**359,376**	**456,676**	**262,622**
Total liabilities and fund balances	**$ 237,766**	**$ 17,924**	**$ 131,972**	**$ 132,256**	**$ 168,895**	**$ 490,845**	**$ 508,469**	**$ 320,144**

See Independent Auditor's Report

		Capital Projects						
Debt Service	General Capital Projects	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Other	Permanent Trust	Total
$ -	$ 413,625	$ -	$ 8,393	$ -	$ 221	$ 5,000	$ 1,591,304
160,358	-	-	-	-	-	-	578,645
	-				-		
-	-	-	-	-	-	-	80,305
-	-	-	-	-	-	-	113,694
-	-	-	-	-	-	-	914
-	-	-	-	-	16	-	231,022
-	-	-	-	-	131,469	-	131,469
$ 160,358	**$ 413,625**	**$ -**	**$ 8,393**	**$ -**	**$ 131,706**	**$ 5,000**	**$ 2,727,353**
$ -	$ 190,584	$ -	$ -	$ -	$ 254	$ -	$ 357,461
-	1,059	-	-	-	-	-	5,983
-	-	-	-	-	-	-	320
-	-	-	-	-	29,506	-	160,975
-	1,542	-	-	-	122,559	-	244,443
-	-	-	-	-	-	-	54,216
-	-	-	-	-	-	-	91,948
-	**193,185**	**-**	**-**	**-**	**152,319**	**-**	**915,346**
160,358	-	-	-	-	-	-	578,645
-	-	-	-	-	-	5,000	5,000
-	-	-	-	-	-	-	1,020,142
-	220,440	-	8,393	-	(20,613)	-	208,220
160,358	**220,440**	**-**	**8,393**	**-**	**(20,613)**	**5,000**	**1,812,007**
$ 160,358	**$ 413,625**	**$ -**	**$ 8,393**	**$ -**	**$ 131,706**	**$ 5,000**	**$ 2,727,353**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Special Revenue							
	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Grant Anticipation Note Trust	Expendable Trust	Other
REVENUES								
Taxes	$ 138,257	$ 867	$ -	$ 770,473	$ 76,679	$ -	$ -	$ 86,169
Assessments	347,793	-	-	150,148	-	-	15,465	41,041
Federal grants and reimbursements	-	6,950	-	-	-	761,351	21,795	45,886
Departmental	97,041	7,147	-	-	254	-	62,453	190,810
Miscellaneous	85,857	14	249,307	-	2,518	10,512	428,225	12,053
Total revenues	**668,948**	**14,978**	**249,307**	**920,621**	**79,451**	**771,863**	**527,938**	**375,959**
OTHER FINANCING SOURCES								
Bonds premium	-	-	-	-	-	-	-	-
Issuance of general obligation bonds	-	-	-	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-	-	-	-
Transfers in for debt service	-	-	-	-	-	-	-	-
Transfers in	979,980	130	-	-	-	36,693	14,891	26,369
Total other financing sources	**979,980**	**130**	**-**	**-**	**-**	**36,693**	**14,891**	**26,369**
Total revenues and other financing sources	**1,648,928**	**15,108**	**249,307**	**920,621**	**79,451**	**808,556**	**542,829**	**402,328**
EXPENDITURES								
Current:								
Judiciary	-	-	-	-	-	-	211	578
Inspector General	882	-	-	-	-	-	-	-
Governor and Lieutenant Governor	-	-	-	-	-	-	-	9
Secretary of the Commonwealth	-	-	-	-	-	-	207	3,491
Treasurer and Receiver-General	-	-	-	920,621	1,810	12,035	86,633	2,506
Auditor of the Commonwealth	-	-	-	-	-	-	793	-
Attorney General	-	-	-	-	-	-	2,529	433
District Attorney	-	-	-	-	-	-	6,659	214
Sheriff's Departments	-	-	-	-	-	-	19,251	920
Comptroller	-	-	-	-	-	-	697	1,601
Administration and finance	21	-	-	-	57,781	-	14,077	46,741
Energy and environmental affairs	-	10,026	-	-	-	-	38,241	84,894
Health and human services	345,492	-	-	-	-	-	40,442	14,427
Transportation and public works	-	-	-	-	-	-	7,347	5,011
Massachusetts department of transportation	-	-	-	-	-	-	-	90
Executive office of education	-	-	-	-	-	-	15,755	1,434
Public safety and homeland security	-	-	-	-	-	-	4,604	53,124
Housing and economic development	-	-	-	-	-	-	23,525	16,855
Labor and workforce development	155,615	-	-	-	-	-	53,295	13,979
Medicaid	1,162,961	-	-	-	-	-	-	13,122
Direct local aid	-	-	-	-	-	-	-	3,089
Capital outlay:								
Local aid	-	-	-	-	-	-	-	-
Capital acquisition and construction	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Total expenditures	**1,664,971**	**10,026**	**-**	**920,621**	**59,591**	**12,035**	**314,266**	**262,518**
OTHER FINANCING USES								
Payments to refunded bond escrow agent	-	-	-	-	-	-	-	-
Transfers out	5,983	1,609	263,678	-	-	610,061	182,359	73,230
Transfers of appropriations	-	-	-	-	-	-	1,796	26
Transfers of bond proceeds	-	-	-	-	-	-	-	-
Transfers out for debt service	-	-	-	-	34,486	196,249	-	19,052
Transfers to \ from MassDOT	-	-	-	-	-	-	-	350,986
Total other financing uses	**5,983**	**1,609**	**263,678**	**-**	**34,486**	**806,310**	**184,155**	**443,294**
Total expenditures and other financing uses	**1,670,954**	**11,635**	**263,678**	**920,621**	**94,077**	**818,345**	**498,421**	**705,812**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**(22,026)**	**3,473**	**(14,371)**	**-**	**(14,626)**	**(9,789)**	**44,408**	**(303,484)**
Fund balances (deficits) at beginning of year	91,052	13,946	146,343	-	155,964	369,165	412,268	566,106
Fund balances (deficits) at end of year	**$ 69,026**	**$ 17,419**	**$ 131,972**	**$ -**	**$ 141,338**	**$ 359,376**	**$ 456,676**	**$ 262,622**

See Independent Auditor's Report

	Capital Projects						
Debt Service	General Capital Projects	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Other	Permanent Trust	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,072,445
-	-	-	-	-	-	-	554,447
-	16,769	-	-	-	1,282	-	854,033
-	-	10,880	-	-	224	-	368,809
8,148	-	35	-	-	1	-	796,670
8,148	**16,769**	**10,915**	**-**	**-**	**1,507**	**-**	**3,646,404**
(1,433)	7,322	-	-	-	-	-	5,889
-	1,087,291	-	1,000	-	5,273	-	1,093,564
538,120	-	-	-	-	-	-	538,120
2,109,427	-	-	-	-	-	-	2,109,427
-	-	-	-	-	785,843	-	1,843,906
2,646,114	**1,094,613**	**-**	**1,000**	**-**	**791,116**	**-**	**5,590,906**
2,654,262	**1,111,382**	**10,915**	**1,000**	**-**	**792,623**	**-**	**9,237,309**
-	-	-	-	-	-	-	789
-	-	-	-	-	-	-	882
-	-	-	-	-	-	-	9
-	-	-	-	-	-	-	3,698
-	-	-	-	-	-	-	1,023,605
-	-	-	-	-	-	-	793
-	-	-	-	-	-	-	2,962
-	-	-	-	-	-	-	6,873
-	-	-	-	-	-	-	20,171
-	-	-	-	-	-	-	2,298
-	-	-	-	-	-	-	118,620
-	-	-	-	-	-	-	133,161
-	-	-	-	-	-	-	400,361
-	16,774	-	-	202	163,874	-	193,208
-	56,286	-	-	-	412,061	-	468,437
-	-	-	-	-	-	-	17,189
-	-	-	-	-	-	-	57,728
-	-	-	-	-	-	-	40,380
-	-	-	-	-	-	-	222,889
-	-	-	-	-	-	-	1,176,083
-	-	-	-	-	-	-	3,089
-	-	-	-	-	532	-	532
-	813,017	-	4,500	-	249,357	-	1,066,874
2,116,507	-	-	-	-	-	-	2,116,507
2,116,507	**886,077**	**-**	**4,500**	**202**	**825,824**	**-**	**7,077,137**
536,755	-	-	-	-	-	-	536,755
-	8,684	-	-	-	2,439	-	1,148,043
-	-	-	-	-	-	-	1,822
-	99,814	-	-	-	-	-	99,814
-	-	-	-	-	-	-	249,787
-	-	110,348	-	969	42,436	-	504,739
536,755	**108,498**	**110,348**	**-**	**969**	**44,875**	**-**	**2,540,960**
2,653,262	**994,575**	**110,348**	**4,500**	**1,171**	**870,699**	**-**	**9,618,098**
1,000	**116,807**	**(99,433)**	**(3,500)**	**(1,171)**	**(78,076)**	**-**	**(380,788)**
159,358	103,633	99,433	11,893	1,171	57,463	5,000	2,192,795
$ 160,358	**$ 220,440**	**$ -**	**$ 8,393**	**$ -**	**$ (20,613)**	**$ 5,000**	**$ 1,812,007**

Combining Statement of Net Assets Available for Post - Employment Benefits

Pension Trust Funds

June 30, 2010

(Amounts in thousands)

	Pension Trust Funds		
	State Employees' PERS	Teachers' PERS	State Retiree Benefits
ASSETS			
Cash and short-term investments	$ 82,485	$ 20,321	$ -
Investments at fair value	16,911,984	18,562,127	308,666
Other receivables	235	80,809	1,144
Total assets	**16,994,704**	**18,663,257**	**309,810**
LIABILITIES			
Accounts payable	2,049	3,352	6,317
Total liabilities	**2,049**	**3,352**	**6,317**
Net assets available for post - employment benefits	**$ 16,992,655**	**$ 18,659,905**	**$ 303,493**

See Independent Auditor's Report

Combining Statement of Changes in Net Assets Available for Post -Employment Benefits

Pension Trust Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	State Retiree Benefits
ADDITIONS			
Contribution:			
Employer contributions	$ 443,658	$ 933,274	$ 372,000
Employee contributions	475,591	593,147	-
MTA retiree funds	176,478	-	-
Total contributions	**1,095,727**	**1,526,421**	**372,000**
Net investment gain (loss):			
Net Investment gain (loss), net of management fees	1,945,724	2,112,888	34,085
Net investment gain (loss)	**1,945,724**	**2,112,888**	**34,085**
Total additions	**3,041,451**	**3,639,309**	**406,085**
DEDUCTIONS			
Administration	7,842	15,831	1,596
Retirement benefits and refunds	1,431,646	2,146,929	371,999
Payments to State Boston Retirement System	-	126,871	-
Total deductions	**1,439,488**	**2,289,631**	**373,595**
Net increase(decrease)	**1,601,963**	**1,349,678**	**32,490**
Net assets available for post - employment benefits at beginning of year	15,390,692	17,310,227	271,003
Net assets available for post - employment benefits at end of year	**$ 16,992,655**	**$ 18,659,905**	**$ 303,493**

Combining Statement of Net Assets Held in Trust for Pool Participants

External Investment Trust Funds
June 30, 2010
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust
ASSETS		
Assets held in trust for pension benefits:		
Cash and short-term investments	$ -	$ 756,988
Investments at fair value	-	4,721,162
Assets held in trust for pool participants:		
Cash and short-term investments	4,405,008	-
Other receivables……..	5,426	40,357
Total assets	**4,410,434**	**5,518,507**
LIABILITIES		
Liabilities:		
Accounts payable	51,226	13,772
Other accrued liablities	679	-
Total liabilities	**51,905**	**13,772**
Net assets held in trust for pool / pension participants……	**$ 4,358,529**	**$ 5,504,735**

See Independent Auditor's Report

Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds
Fiscal Year Ended June 30, 2010
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust
ADDITIONS		
Contribution:		
Proceeds from sale of units	$ 23,224,270	$ 203,399
Total contributions	**23,224,270**	**203,399**
Net investment gain (loss):		
Investment gain (loss), net of management fees	31,581	584,009
Net investment gain (loss)	**31,581**	**584,009**
Total additions	**23,255,851**	**787,408**
DEDUCTIONS		
Cost of units redeemed	24,068,689	-
Distributions to unit holders from net interest income	24,431	-
Total deductions	**24,093,120**	**-**
Net increase (decrease)	**(837,269)**	**787,408**
Net assets held in trust for pool / pensions participants at beginning of year	5,195,798	4,717,327
Net assets held in trust for pool / pensions participants at end of year	**$ 4,358,529**	**$ 5,504,735**

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Central Agency Funds				
ASSETS				
Cash and short-term investments	$ 335,384	$ 8,233,374	$ 8,299,574	$ 269,184
Investments, restricted investments and annuity contracts	1,522,440	206,131	243,777	1,484,794
Taxes receivable	2,021	1,916	2,021	1,916
Other receivables	84	-	84	-
Total assets	**$ 1,859,929**	**$ 8,441,421**	**$ 8,545,456**	**$ 1,755,894**
LIABILITIES				
Accounts payable	$ 45,314	$ 3,133,722	$ 3,133,697	$ 45,339
Due to cities and towns	83,850	378,362	435,379	26,833
Lottery prizes payable	1,522,440	206,131	243,777	1,484,794
Agency liabilities	208,325	3,518,934	3,528,331	198,928
Total liabilities	**$ 1,859,929**	**$ 7,237,149**	**$ 7,341,184**	**$ 1,755,894**
Court Escrow and Client Accounts				
ASSETS				
Cash and short-term investments	$ 95,026	$ 1,221,818	$ 1,202,517	$ 114,327
Assets held in trust	53,738	38,881	39,583	53,036
Other receivables	106,615	111,758	106,615	111,758
Total assets	**$ 255,379**	**$ 1,372,457**	**$ 1,348,715**	**$ 279,121**
LIABILITIES				
Accounts payable	$ 156	$ 1,181,304	$ 1,175,051	$ 6,409
Agency liabilities	255,223	775,486	757,997	272,712
Total liabilities	**$ 255,379**	**$ 1,956,790**	**$ 1,933,048**	**$ 279,121**
Statutory Bonds and Deposits				
ASSETS				
Cash and short-term investments	$ 86	$ -	$ -	$ 86
Assets held in trust	776,741	395,316	517,986	654,071
Total assets	**$ 776,827**	**$ 395,316**	**$ 517,986**	**$ 654,157**
LIABILITIES				
Agency liabilities	$ 776,827	$ 395,316	$ 517,986	$ 654,157
Total liabilities	**$ 776,827**	**$ 395,316**	**$ 517,986**	**$ 654,157**

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Total Agency Funds				
ASSETS				
Cash and short-term investments	$ 430,496	$ 9,455,192	$ 9,502,091	$ 383,597
Investments, restricted investments and annuity contracts	1,522,440	206,131	243,777	1,484,794
Assets held in trust	830,479	434,197	557,569	707,107
Taxes receivable	2,021	1,916	2,021	1,916
Other receivables	106,699	111,758	106,699	111,758
Total assets	**$ 2,892,135**	**$ 10,209,194**	**$ 10,412,157**	**$ 2,689,172**
LIABILITIES				
Accounts payable	$ 45,470	$ 4,315,026	$ 4,308,748	$ 51,748
Due to cities and towns	83,850	378,362	435,379	26,833
Lottery prizes payable	1,522,440	206,131	243,777	1,484,794
Agency liabilities	1,240,375	4,689,736	4,804,314	1,125,797
Total liabilities	**$ 2,892,135**	**$ 9,589,255**	**$ 9,792,218**	**$ 2,689,172**

Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2010

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Total
ASSETS AND DEFERRED OUTFLOWS							
Current assets:							
Cash and cash equivalents	$ 6,878	$ 18,003	$ 6,770	$ 31	$ 62,673	$ 42,617	$ 136,972
Short-term investments	-	166,015	33,624	34,740	-	42,164	276,543
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable	-	-	1,055	-	-	-	1,055
Loans	-	12,779	10,523	-	10,770	10,554	44,626
Other receivables	5,822	10,485	9,336	1,155	4,630	1,225	32,653
Due from primary government	52,557	361	-	2,034	-	13,602	68,554
Inventory	-	-	-	-	-	79	79
Other current assets	1,132	4,639	90	143	-	260	6,264
Total current assets	**66,389**	**212,282**	**61,398**	**38,103**	**78,073**	**110,501**	**566,746**
Noncurrent assets:							
Cash and cash equivalents - restricted	-	36,679	-	18,575	-	1,977	57,231
Long - term investments	-	61,194	6,366	8,085	-	3,077	78,722
Restricted investments	-	-	162,969	5,523	-	-	168,492
Accounts receivables, net	-	1,226	-	-	-	647	1,873
Loans receivables, net	-	69,473	-	-	314,339	20,071	403,883
Due from primary government	-	4,431	-	-	-	-	4,431
Non-depreciable capital assets	83,457	13,042	-	4,627	-	12	101,138
Depreciable capital assets, net	699,162	242,226	15,922	9,588	-	13,514	980,412
Other noncurrent assets	-	10,198	-	-	337	72	10,607
Total noncurrent assets	**782,619**	**438,469**	**185,257**	**46,398**	**314,676**	**39,370**	**1,806,789**
Deferred outflows from derivative instruments	-	18,216	-	-	-	-	18,216
Total assets and deferred outflows	**849,008**	**668,967**	**246,655**	**84,501**	**392,749**	**149,871**	**2,391,751**
LIABILITES							
Current liabilities:							
Accounts payable and other liabilities	10,321	15,849	13,007	3,885	1,063	4,726	48,851
Accrued payroll	-	-	1,099	-	-	55	1,154
Compensated absences	1,696	894	-	-	-	713	3,303
Accrued interest payable	-	2,771	-	-	980	-	3,751
Due to primary government	13,222	408	-	6,497	-	12,465	32,592
Deferred revenue	9,832	-	-	-	-	7,186	17,018
Bonds, notes payable and other obligations	-	2,185	-	-	8,098	4,880	15,163
Total current liabilities	**35,071**	**22,107**	**14,106**	**10,382**	**10,141**	**30,025**	**121,832**
Noncurrent liabilities:							
Compensated absences	-	-	-	-	-	94	94
Due to primary government	-	15,531	-	-	-	-	15,531
Deferred revenue	-	1,459	-	-	25,828	976	28,263
Bonds, notes payable and other obligations	-	173,779	-	-	317,357	44,968	536,104
Post - employment obligations	1,852	-	-	-	-	-	1,852
Liability for derivative instruments	-	18,216	3,089	-	-	-	21,305
Other noncurrent liabilities	-	-	14,252	558	-	1,932	16,742
Total noncurrent liabilities	**1,852**	**208,985**	**17,341**	**558**	**343,185**	**47,970**	**619,891**
Total liabilities	**36,923**	**231,092**	**31,447**	**10,940**	**353,326**	**77,995**	**741,723**
NET ASSETS							
Invested in capital assets, net of related debt	769,397	87,438	15,922	14,215	263	13,425	900,660
Restricted for:							
Other purposes	-	187,035	199,286	50,215	24,579	24,176	485,291
Unrestricted	42,688	163,402	-	9,131	14,581	34,275	264,077
Total net assets	**$ 812,085**	**$ 437,875**	**$ 215,208**	**$ 73,561**	**$ 39,423**	**$ 71,876**	**$ 1,650,028**

See Independent Auditor's Report

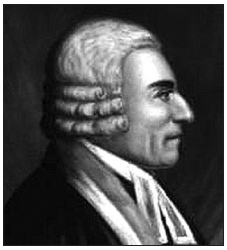
Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units

Fiscal Year Ended June 30, 2010

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Total
Operating revenues:							
Charges for services	$ 46,572	$ 51,544	$ 7,408	$ -	$ 5,162	$ 40,825	$ 151,511
Other	673	24,073	30	2,229	8,413	3,431	38,849
Total operating revenues	**47,245**	**75,617**	**7,438**	**2,229**	**13,575**	**44,256**	**190,360**
Operating expenses:							
Cost of services	50,116	13,790	26,136	51,402	10,558	88,825	240,827
Administration costs	22,665	66,264	461	257	4,213	3,396	97,256
Depreciation	39,008	11,227	47	368	487	1,754	52,891
Total operating expenses	**111,789**	**91,281**	**26,644**	**52,027**	**15,258**	**93,975**	**390,974**
Operating income (loss)	**(64,544)**	**(15,664)**	**(19,206)**	**(49,798)**	**(1,683)**	**(49,719)**	**(200,614)**
Nonoperating revenues (expenses):							
Operating grants	62,212	472	27,374	39,022	-	39,518	168,598
Interest income	134	2,100	1,232	7,670	-	168	11,304
Other nonoperating revenue (expense)	-	(144)	(3,864)	(178,676)	-	-	(182,684)
Nonoperating revenues (expenses), net	**62,346**	**2,428**	**24,742**	**(131,984)**	**-**	**39,686**	**(2,782)**
Income (loss) before contributions	**(2,198)**	**(13,236)**	**5,536**	**(181,782)**	**(1,683)**	**(10,033)**	**(203,396)**
Capital contributions	-	(4,321)	174,226	-	-	15,810	185,715
Change in net assets	**(2,198)**	**(17,557)**	**179,762**	**(181,782)**	**(1,683)**	**5,777**	**(17,681)**
Net assets - beginning, as restated	814,283	455,432	35,446	255,343	41,106	66,099	1,667,709
Net assets - ending	**$ 812,085**	**$ 437,875**	**$ 215,208**	**$ 73,561**	**$ 39,423**	**$ 71,876**	**$ 1,650,028**

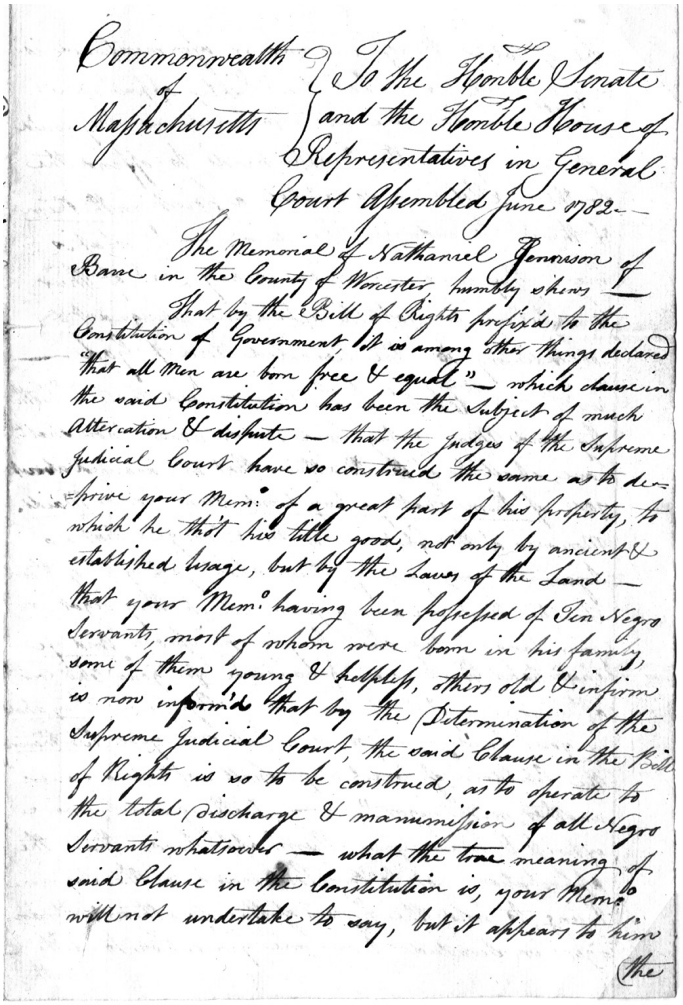


Chief Justice William Cushing

Quock Walker

Quock Walker was a Worcester County slave belonging to James Caldwell. When Caldwell died in 1763, his widow married a man named Nathaniel Jennison of Barre, Massachusetts. Walker believed that Caldwell had promised him his freedom, but Jennison refused to manumit him. In 1781, Walker ran away from Jennison's home to the nearby farm of James Caldwell's sons, Seth and John. Jennison found Walker, severely beat him with a whip handle and brought him home.

Caldwell Farm in Barre, Massachusetts, where Quock Walker took refuge. Courtesy of Barre Historical Society



Commonwealth of Massachusetts

To the Honble Senate and the Honble House of Representatives in General Court Assembled June 1782 —

The Memorial of Nathaniel Jennison of Barre in the County of Worcester humbly shews —

That by the Bill of Rights prefix'd to the Constitution of Government, it is among other things declared "that all Men are born free & equal" — which clause in the said Constitution has been the subject of much altercation & dispute — that the Judges of the Supreme Judicial Court have so construed the same as to deprive your Mem.ˡ of a great part of his property, to which he thot his title good, not only by ancient & established usage, but by the Laws of the Land — that your Mem.ˡ having been possessed of Ten Negro Servants, most of whom were born in his family, some of them young & helpless, others old & infirm, is now inform'd that by the Determination of the Supreme Judicial Court, the said Clause in the Bill of Right is so to be construed, as to operate to the total discharge & manumission of all Negro Servants whatsoever — what the true meaning of said Clause in the Constitution is, your Mem.ˡ will not undertake to say, but it appears to him

the

Two civil trials ensued in Worcester County Court of Common Pleas. Walker sued Jennison for his freedom and assault and battery, and Jennison sued the Caldwell brothers for depriving him of his property. A third criminal trial in 1783 before the Supreme Judicial Court charged Jennison with assault and battery against Walker. In his instructions to the jury, Chief Justice William Cushing held that slavery was inconsistent with the rights and privileges guaranteed by our state's constitution and that slavery was effectively abolished in Massachusetts.

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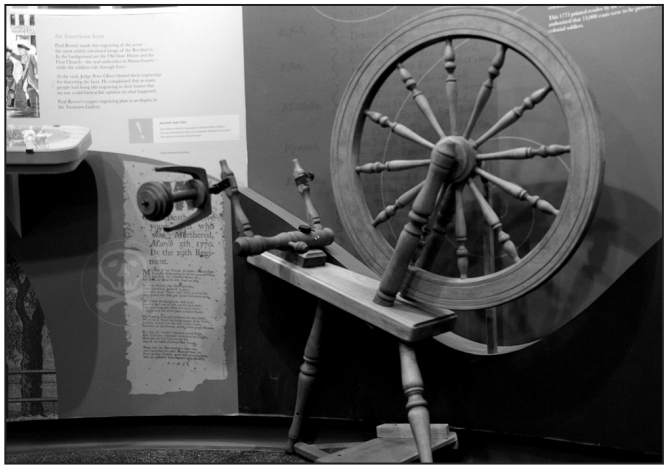

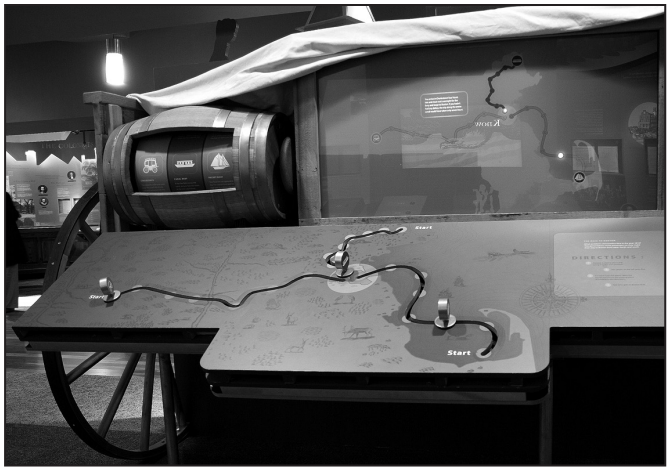

Photography by Vinh Nguyen

Statistical Section Narrative and Table of Contents

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

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Financial Trends

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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Schedule Of Net Assets by Component
Last Nine Fiscal Years

(Amounts in thousands)

	2010	2009	2008	2007*	2006	2005	2004	2003	2002
Governmental activities									
Invested in capital assets, net of related debt..	$ (885,593)	$ 189,913	$ 446,666	$ 489,432	$ 101,510	$ 196,765	$ 2,032,958	$ 3,901,007	$ 5,611,252
Restricted.....	594,492	608,938	979,475	993,520	1,758,291	1,289,174	519,746	311,837	793,991
Unrestricted.....	(22,082,243)	(12,952,506)	(10,587,591)	(11,079,729)	(12,157,187)	(13,030,031)	(8,894,155)	(12,318,385)	(13,820,768)
Total governmental activities net assets.....	**$ (22,373,344)**	**$ (12,153,655)**	**$ (9,161,450)**	**$ (9,596,777)**	**$ (10,297,385)**	**$ (11,544,092)**	**$ (6,341,451)**	**$ (8,105,541)**	**$ (7,415,525)**
Business-type activities									
Invested in capital assets, net of related debt..	$ 1,767,434	$ 1,698,825	$ 1,562,002	$ 1,392,363	$ 1,283,570	$ 1,149,352	$ 1,132,637	$ 1,073,152	$ 1,032,022
Restricted.....	1,148,751	1,609,145	2,390,206	2,295,507	1,816,066	1,331,053	915,583	946,704	1,784,322
Unrestricted.....	857,263	621,952	644,363	645,211	548,774	562,777	434,007	321,523	243,605
Total business-type activities net assets.....	**$ 3,773,448**	**$ 3,929,922**	**$ 4,596,571**	**$ 4,333,081**	**$ 3,648,410**	**$ 3,043,182**	**$ 2,482,227**	**$ 2,341,379**	**$ 3,059,949**
Commonwealth net assets									
Invested in capital assets, net of related debt..	$ 881,841	$ 1,888,738	$ 2,008,668	$ 1,881,795	$ 1,385,080	$ 1,346,117	$ 3,165,595	$ 4,974,159	$ 6,643,274
Restricted.....	1,743,243	2,218,083	3,369,681	3,289,027	3,574,357	4,750,395	1,435,329	1,258,541	2,578,313
Unrestricted.....	(21,224,980)	(12,330,554)	(9,943,228)	(10,434,518)	(11,608,413)	(14,597,422)	(8,460,148)	(11,996,862)	(13,577,163)
Total Commonwealth net assets.....	**$ (18,599,896)**	**$ (8,223,733)**	**$ (4,564,879)**	**$ (5,263,696)**	**$ (6,648,975)**	**$ (8,500,910)**	**$ (3,859,224)**	**$ (5,764,162)**	**$ (4,355,576)**

Changes in Net Assets
Last Nine Fiscal Years

(Amounts in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
EXPENSES									
Governmental Activities:									
General government	$ 2,358,706	$ 2,630,554	$ 2,321,251	$ 2,198,999	$ 2,030,792	$ 1,861,827	$ 2,084,482	$ 1,870,365	$ 1,385,454
Judiciary	1,043,004	1,138,179	993,424	852,124	731,931	694,245	570,228	641,227	540,248
Direct local aid	5,030,363	5,210,451	5,118,858	5,081,359	4,682,027	4,525,847	4,877,089	5,118,711	5,252,805
Medicaid	10,677,999	10,842,549	9,769,893	9,044,420	8,150,576	7,705,717	6,909,412	6,177,280	5,978,811
Group health insurance	1,092,178	977,565	828,297	1,033,796	970,150	872,970	778,072	732,252	770,832
Interest (unallocated)	1,090,471	1,116,278	1,152,162	1,079,551	985,474	861,265	788,908	739,463	687,817
Energy and environmental	326,128	426,808	537,691	488,883	438,731	419,329	379,710	395,713	469,591
Housing and economic development*	1,297,143	1,042,084	899,474	519,399	670,518	609,409	593,000	590,246	554,712
Health and human services*	6,119,110	7,452,418	6,726,961	6,414,249	6,585,029	6,441,959	5,940,586	5,778,186	5,626,813
Transportation and public works	2,088,354	1,336,257	1,199,103	1,271,608	1,286,857	1,566,773	1,569,678	2,053,939	1,764,257
Early elementary and secondary education*	3,395,360	3,210,200	2,932,143	1,870,250	(1,935,643)	8,226,508	1,251,618	1,427,482	1,896,971
Public safety and homeland security	2,409,557	2,561,607	2,097,076	1,763,191	1,768,924	1,638,434	1,477,469	1,384,537	1,023,141
Labor and workforce development*	483,091	474,438	340,668	641,134	387,132	358,839	387,590	430,982	391,358
Lottery	3,649,396	3,693,318	3,910,362	3,689,221	3,708,713	3,692,520	3,606,608	3,470,046	3,453,858
Total governmental activities	**41,060,860**	**42,112,705**	**38,827,362**	**35,948,184**	**34,358,196**	**39,488,186**	**31,214,448**	**30,810,430**	**29,859,108**
Business-type Activities:									
Unemployment compensation	5,435,611	3,475,027	1,554,885	1,430,130	1,337,565	1,662,955	2,461,293	2,589,107	2,183,100
Higher Education:									
University of Massachusetts	2,640,134	2,474,797	2,274,312	2,233,634	2,116,226	1,977,546	1,597,676	1,531,381	1,437,518
State colleges	762,043	736,972	733,842	624,470	568,592	514,122	456,022	425,154	418,593
Community colleges	716,526	671,923	685,235	627,400	592,310	548,017	525,179	523,403	508,895
Total business -type activities	**9,554,314**	**7,358,719**	**5,248,274**	**4,915,634**	**4,614,693**	**4,702,640**	**5,040,170**	**5,069,045**	**4,548,107**
Total Commonwealth expenses	**$ 50,615,174**	**$ 49,471,424**	**$ 44,075,636**	**$ 40,863,818**	**$ 38,972,889**	**$ 44,190,826**	**$ 36,254,618**	**$ 35,879,475**	**$ 34,407,214**
REVENUES									
Program Revenues:									
Governmental Activities:									
Charges for services:									
General government	$ 464,592	$ 436,344	$ 414,614	$ 564,347	$ 451,753	$ 492,750	$ 463,132	$ 233,135	$ 158,825
Judiciary	128,198	123,819	124,542	118,652	115,443	105,072	101,994	74,412	62,982
Medicaid	185,463	180,380	176,471	172,136	702,104	937,422	687,535	26,772	90,081
Group health insurance	349,870	230,456	209,008	151,604	131,611	111,342	98,598	93,529	81,089
Energy and environmental	214,269	226,754	162,639	168,789	156,074	138,854	152,632	132,531	124,317
Housing and economic development*	221,340	178,011	185,019	1,892	6,245	3,515	1,446	1,373	1,282
Health and human services*	797,929	718,628	601,483	538,543	613,780	756,469	861,899	966,813	909,777
Transportation and public works	517,045	494,733	477,420	461,217	448,349	478,154	13,687	7,813	6,995
Early elementary and secondary education*	9,661	15,728	10,766	8,042	6,346	5,583	11,644	5,073	3,909
Public safety and homeland security	202,427	175,069	153,641	126,962	135,846	112,350	564,023	520,496	451,101
Labor and workforce development*	38,319	37,728	31,758	187,256	213,078	199,817	179,794	168,471	160,577
Lottery	4,626,777	4,643,592	4,905,509	4,656,110	4,726,339	4,698,935	4,603,204	4,421,621	4,423,052
Total Charges for services	7,755,891	7,461,243	7,452,873	7,155,550	7,706,968	8,040,263	7,739,588	6,652,039	6,473,987
Operating grants and contributions	11,645,306	12,059,019	9,271,936	8,849,046	8,347,822	7,961,904	8,017,469	7,129,712	7,078,110
Capital grants and contributions	779,403	853,221	484,172	487,365	481,780	461,371	602,449	508,235	338
Total governmental activities	**20,180,600**	**20,373,482**	**17,208,980**	**16,491,961**	**16,536,570**	**16,463,538**	**16,359,506**	**14,289,986**	**13,552,435**
Business-type Activities									
Charges for services:									
Unemployment Compensation	1,727,964	1,671,098	1,587,543	1,698,249	1,741,101	242,769	1,481,803	940,475	25,183
Higher Education:									
University of Massachusetts	1,527,880	1,419,932	1,160,513	1,194,393	1,076,875	424,184	822,668	678,812	584,633
State Colleges	479,900	442,685	400,369	287,195	272,918	64,872	222,740	182,428	147,902
Community Colleges	235,865	219,986	204,190	190,808	175,418	122,828	165,257	141,480	119,671
Operating grants and contributions	4,020,351	1,721,199	710,974	746,385	684,108	854,653	1,376,666	1,249,768	869,848
Capital grants and contributions	-	-	-	-	-	-	-	-	77,161
Total business-type activities	**7,991,960**	**5,474,900**	**4,063,589**	**4,117,030**	**3,950,420**	**4,108,237**	**4,069,134**	**3,192,962**	**1,824,398**
Total Commonwealth program revenues	**$ 28,172,560**	**$ 25,848,382**	**$ 21,272,569**	**$ 20,608,991**	**$ 20,486,988**	**$ 20,571,775**	**$ 20,428,640**	**$ 17,482,948**	**$ 15,376,834**
General Revenues and Other Changes in Net Assets (all types consolidated):									
Governmental Activities:									
Taxes (all types)	$ 19,034,227	$ 18,499,273	$ 21,174,430	$ 20,001,189	$ 18,668,322	$ 17,580,271	$ 16,406,781	$ 15,161,687	$ 14,688,596
Investment earnings and miscellaneous	1,474,995	1,489,018	2,057,309	1,318,008	1,396,033	1,168,540	1,042,704	1,179,686	(367,695)
Gain on sale of capital assets	-	-	-	-	26,300	-	-	-	-
Transfers	(864,697)	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)	(830,453)	(950,217)	(1,018,603)
Transfers to \ from MassDOT	(8,983,955)	-	-	-	-	-	-	-	-
Total governmental activities	**10,660,570**	**18,917,639**	**22,053,709**	**20,151,830**	**19,068,335**	**17,822,096**	**16,619,032**	**15,391,156**	**13,302,298**
Business-type Activities									
Investment earnings and miscellaneous	$ 553,088	$ 140,227	$ 270,145	$ 315,908	247,181	228,643	181,719	207,296	965,901
Loss on sale of capital assets	(12,125)	(11,530)	-	-	-	-	-	-	-
Transfers	864,697	1,070,652	1,178,030	1,167,367	1,022,320	926,715	830,453	950,217	1,018,603
Total business -type activities	**1,405,660**	**1,199,349**	**1,448,175**	**1,483,275**	**1,269,501**	**1,155,358**	**1,012,172**	**1,157,513**	**1,984,504**
Total Commonwealth general revenues	**$ 12,066,230**	**$ 20,116,988**	**$ 23,501,884**	**$ 21,635,105**	**$ 20,337,836**	**$ 18,977,454**	**$ 17,631,205**	**$ 16,548,670**	**$ 15,286,802**
CHANGES IN NET ASSETS									
Governmental activities	$ (10,219,689)	$ (2,821,583)	$ 435,327	$ 695,608	$ 1,246,707	$ (5,202,551)	$ 1,764,090	$ (1,129,287)	$ (3,004,374)
Business-type activities	(156,694)	(684,470)	263,490	684,671	605,228	560,955	41,136	(718,570)	(739,205)
Current year restatements	-	(152,800)	-	-	-	-	-	-	-
Total changes in net assets including restatements	**$ (10,376,383)**	**$ (3,658,854)**	**$ 698,817**	**$ 1,380,279**	**$ 1,851,935**	**$ (4,641,596)**	**$ 1,805,226**	**$ (1,847,857)**	**$ (3,743,578)**

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

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Fund Balances, Governmental Funds
Last Nine Fiscal Years

(Modified accrual basis of accounting)

(Amounts in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Total Unreserved general fund……	**$ 1,834,783**	**$ 1,734,822**	**$ 3,171,278**	**$ 4,899,154**	**$ 4,922,074**	**$ 4,067,885**	**$ 2,497,447**	**$ 1,309,917**	**$ 2,375,393**
All Other Governmental Funds									
Reserved……	594,492	625,538	1,002,675	1,092,343	1,109,898	1,154,807	1,947,897	1,474,983	1,726,590
Unreserved:									
Special Revenue Funds……	2,655,552	2,821,120	3,244,280	1,991,347	1,728,522	329,315	587,008	440,032	(419,077)
Capital Projects Funds……	(499,111)	(125,138)	(360,570)	(251,985)	(497,300)	(503,441)	(607,946)	(1,203,914)	(1,286,550)
Permanent Trust Funds……	-	5,000 *	5,000	5,000	-	-	-	-	71,497
Total Unreserved……	2,156,441	2,700,982	2,888,710	1,744,362	1,231,222	(174,126)	(20,938)	(763,882)	(1,634,130)
Total all other governmental funds……	**2,750,933**	**3,326,520**	**3,891,385**	**2,836,705**	**2,341,120**	**980,681**	**1,926,959**	**711,101**	**92,460**
Total governmental fund balances……	**$ 4,585,716**	**$ 5,061,342**	**$ 7,062,663**	**$ 7,735,859**	**$ 7,263,194**	**$ 5,048,566**	**$ 4,424,406**	**$ 2,021,018**	**$ 2,467,853**

Reclassed from Unreserved to Reserved Other Governmental Funds

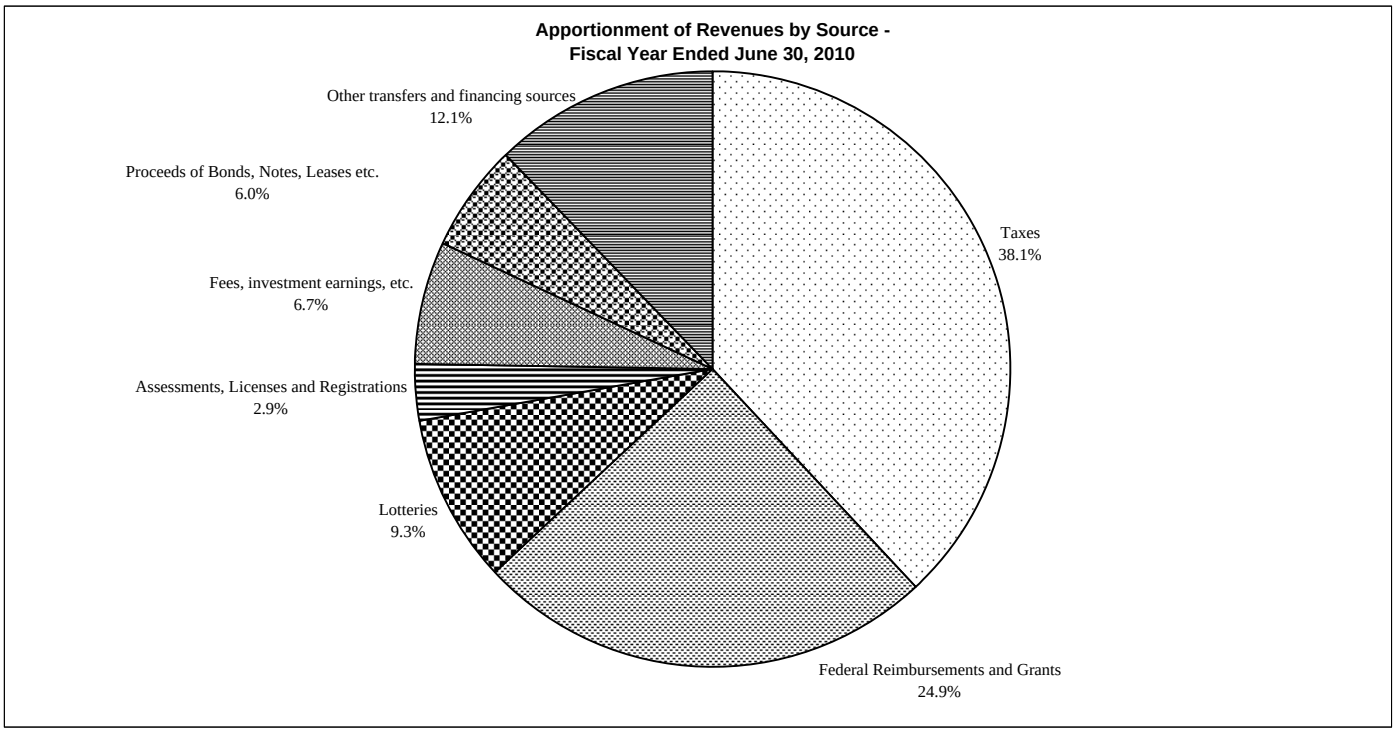
Ten-Year Schedule Of Revenues And Other Financing Sources

All Governmental Fund Types - Fund Perspective

(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total
Taxes	$ 18,991	38.1	$ 18,354	36.9	$ 21,120	42.1	$ 19,985	40.5	$ 18,754	39.7
Federal reimbursements	9,453	19.0	9,392	18.9	7,037	14.0	6,847	13.9	6,350	13.5
Federal grants	2,971	6.0	3,510	7.0	2,681	5.3	2,489	5.0	2,479	5.3
Lotteries	4,628	9.3	4,650	9.3	4,915	9.8	4,670	9.5	4,739	10.0
Assessments	965	1.9	929	1.9	858	1.7	860	1.7	850	1.8
Motor vehicle licenses and registrations	463	0.9	383	0.8	376	0.7	380	0.8	361	0.8
Fees, investment earnings, etc	3,365	6.7	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0
Proceeds of general obligation bonds	2,419	4.9	2,042	4.1	1,281	2.6	3,181	6.4	4,492	9.5
Proceeds of refunding bonds	538	1.1	390	0.8	-	-	1,428	2.9	633	1.3
Proceeds of capital lease	17	-	18	-	17	-	21	-	30	0.1
Transfers	6,043	12.1	6,916	13.9	8,305	16.6	6,666	13.5	5,232	11.1
Other financing sources	-	-	-	-	-	-	-	-	-	-
Total revenues and other financing sources	$ 49,853	100.0	$ 49,788	100.0	$ 50,136	100.0	$ 49,402	100.0	$ 47,190	100.0



2005	% Total	2004	% Total	2003	% Total	2002	% Total	2001	% Total
$ 17,671	40.6	$ 16,133	36.4	$ 15,091	35.3	$ 14,428	39.6	$ 16,803	42.8
6,053	13.9	6,284	14.2	5,522	12.9	5,267	14.4	4,716	12.0
2,369	5.4	2,336	5.3	2,112	4.9	1,812	5.0	1,644	4.2
4,705	10.8	4,605	10.4	4,423	10.3	4,425	12.1	4,136	10.5
831	1.9	773	1.7	645	1.5	572	1.6	590	1.5
401	0.9	376	0.8	383	0.9	326	0.9	311	0.8
3,213	7.5	3,028	6.8	2,331	5.4	2,178	6.0	1,885	4.8
1,354	3.1	1,993	4.5	1,911	4.5	1,489	4.1	1,769	4.5
1,385	3.2	3,302	7.4	3,398	7.9	1,501	4.1	999	2.5
58	0.1	11	-	-	-	10	-	31	0.1
5,493	12.6	5,531	12.5	6,981	16.3	4,454	12.2	5,566	14.2
-	-	-	-	-	-	3	-	206	0.5
$ 43,533	100.0	$ 44,372	100.0	$ 42,796	100.0	$ 36,477	100.0	$ 39,256	100.0

Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat

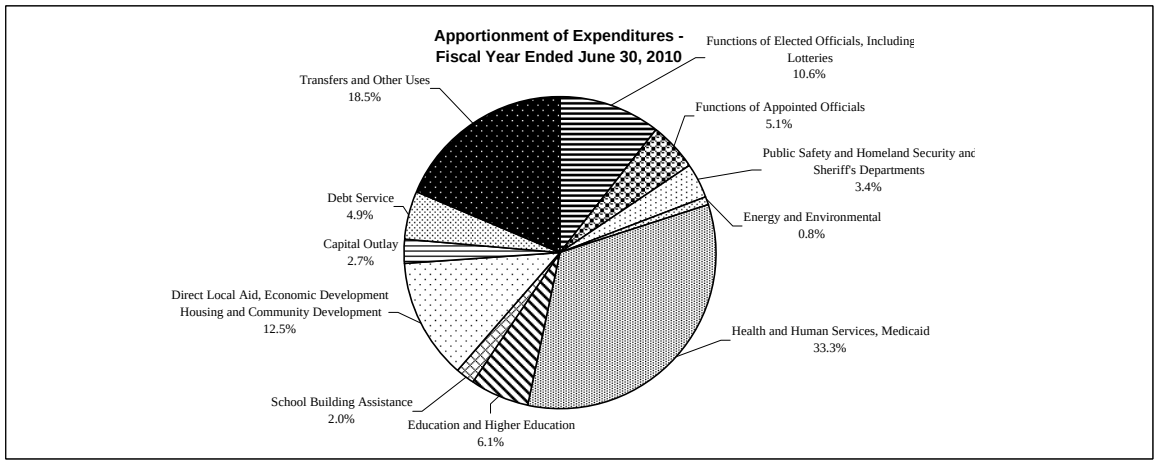
All Governmental Fund Types - Fund Perspective

(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total
Legislature	$ 59	0.12	$ 60	0.12	$ 58	0.11	$ 59	0.12	$ 55	0.12
Judiciary	769	1.53	797	1.54	796	1.57	799	1.63	660	1.47
Inspector General	4	0.01	3	0.01	3	0.01	3	0.01	3	0.01
Governor and Lieutenant Governor	5	0.01	8	0.02	9	0.02	5	0.01	5	0.01
Secretary of the Commonwealth	52	0.10	51	0.10	51	0.10	52	0.11	44	0.10
Treasurer and Receiver-General	4,862	9.66	5,097	9.84	5,089	10.02	4,712	9.63	4,803	10.68
Auditor of the Commonwealth	18	0.04	19	0.04	19	0.04	18	0.04	18	0.04
Attorney General	52	0.10	53	0.10	45	0.09	62	0.13	52	0.12
Ethics Commission	2	0.00	2	-	2	-	2	-	1	-
District Attorney	102	0.20	112	0.22	111	0.22	102	0.21	94	0.21
Office of Campaign and Political Finance	1	0.00	1	-	1	-	2	-	1	-
Sheriff's Department	394	0.78	296	0.57	295	0.58	272	0.56	247	0.55
Disabled Persons Protection Commission	2	0.00	3	-	2	-	2	-	2	-
Board of Library Commissioners	28	0.05	37	0.07	36	0.07	10	0.02	8	0.02
Comptroller	13	0.03	14	0.03	14	0.03	14	0.03	14	0.03
Administration and finance	1,686	3.36	1,709	3.30	1,528	3.01	1,849	3.78	1,651	3.67
Energy and environmental	403	0.80	352	0.68	312	0.61	318	0.65	282	0.63
Housing and communities development	-	-	-	-	-	-	402	0.82	536	1.19
Early education and care	-	-	-	-	560	1.10	518	1.06	482	1.07
Health and human services	5,529	10.98	6,684	12.91	6,423	12.64	5,907	12.07	5,865	13.04
Transportation and public works	474	0.94	389	0.75	347	0.68	350	0.72	282	0.63
Massachusetts department of transportation	1,209	2.40	-	-	-	-	-	-	-	-
Executive office of educaion*	2,968	5.90	2,920	5.64	2,205	4.34	2,048	4.19	1,978	4.40
Massachusetts school building assistance	973	1.93	657	1.27	765	1.51	1,411	2.88	2,330	5.18
Higher education	-	-	-	-	131	0.26	126	0.26	106	0.24
Public safety and homeland security	1,282	2.55	1,416	2.73	1,407	2.77	1,238	2.53	1,165	2.59
Housing and economic development*	1,060	2.11	793	1.53	710	1.40	512	1.05	384	0.85
Labor and workforce development*	447	0.89	398	0.77	308	0.61	81	0.17	-	-
Elder affairs*	-	-	-	-	-	-	-	-	-	-
Consumer affairs*	-	-	-	-	-	-	-	-	-	-
Labor*	-	-	-	-	-	-	-	-	-	-
Medicaid	10,678	21.22	10,843	20.94	9,770	19.23	9,044	18.48	8,151	18.12
Pension	587	1.17	647	1.25	368	0.72	373	0.76	346	0.77
Direct local aid	5,030	9.99	5,208	10.06	5,108	10.05	5,072	10.36	4,674	10.39
Capital outlay:										
Local aid	1	0.00	3	0.01	10	0.02	9	0.02	8	0.02
Capital acquisition and construction	1,300	2.58	2,514	4.85	1,698	3.34	1,724	3.52	1,754	3.90
Debt service	2,407	4.78	2,410	4.65	2,486	4.89	2,538	5.19	2,088	4.64
Other financing uses:										
Payments to refunded bond escrow agent	537	1.07	410	0.79	-	-	1,520	3.11	633	1.41
Transfers	7,395	14.69	7,887	15.23	10,141	19.96	7,781	15.90	6,253	13.90
Total expenditures and other financing uses	$ 50,329	100.0	$ 51,789	100.0	$ 50,810	100.0	$ 48,935	100.0	$ 44,975	100.0
Change in Governmental Fund Balance	$ (476)		$ (2,001)		$ (674)		$ 467		$ 2,215	

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.


Apportionment of Expenditures -
Fiscal Year Ended June 30, 2010
Functions of Elected Officials, Including Lotteries 10.6%
Functions of Appointed Officials 5.1%
Public Safety and Homeland Security and Sheriff's Departments 3.4%
Energy and Environmental 0.8%
Health and Human Services, Medicaid 33.3%
Education and Higher Education 6.1%
School Building Assistance 2.0%
Direct Local Aid, Economic Development Housing and Community Development 12.5%
Capital Outlay 2.7%
Debt Service 4.9%
Transfers and Other Uses 18.5%

2005	% Total	2004	% Total	2003	% Total	2002	% Total	2001	% Total
$ 50	0.1	$ 51	0.1	$ 53	0.1	$ 60	0.2	$ 57	0.2
580	1.4	577	1.4	568	1.3	593	1.5	597	1.6
3	-	2	-	2	-	2	-	2	-
5	-	5	-	5	-	6	-	6	-
46	0.1	43	0.1	39	0.1	36	0.1	45	0.1
4,706	11.0	4,535	10.8	4,446	10.3	3,558	9.2	3,335	8.8
16	-	16	-	16	-	16	-	15	-
70	0.2	52	0.1	55	0.1	62	0.2	36	0.1
1	-	1	-	1	-	1	-	2	-
84	0.2	86	0.2	85	0.2	89	0.2	86	0.2
1	-	1	-	1	0.0	5	-	1	-
216	0.5	218	0.5	215	0.5	216	0.6	201	0.5
2	-	2	-	2	0.0	2	-	2	-
7	-	6	-	6	-	10	-	11	-
12	-	8	-	8	-	8	-	8	-
1,536	3.6	1,508	3.7	1,202	2.8	1,361	3.5	1,202	3.3
238	0.6	225	0.5	236	0.5	268	0.7	253	0.7
483	1.1	470	1.1	476	1.1	449	1.2	442	1.2
-	-	-	-	-	-	-	-	-	-
6,208	14.5	5,868	14.0	5,327	12.3	5,386	13.9	5,622	15.0
316	0.7	189	0.5	218	0.5	139	0.4	162	0.4
-	-	-	-	-	-	-	-	-	-
2,990	7.0	1,587	3.8	1,546	3.6	1,506	3.9	1,492	3.9
-	-	-	-	-	-	-	-	-	-
114	0.3	99	0.2	111	0.3	119	0.3	136	0.4
1,053	2.5	1,039	2.5	991	2.3	999	2.6	955	2.5
346	0.8	376	0.9	29	0.1	32	0.1	51	0.1
-	-	-	-	-	-	-	-	-	-
-	-	-	-	315	0.7	304	0.8	241	0.6
-	-	-	-	55	0.1	63	0.2	71	0.2
-	-	-	-	330	0.8	284	0.7	172	0.5
7,706	18.0	6,909	16.5	6,177	14.3	5,979	15.4	4,761	12.6
439	1.0	212	0.5	290	0.7	238	0.6	318	0.8
4,515	10.5	4,861	11.6	5,103	11.8	5,231	13.5	5,012	13.2
11	-	16	-	15	-	21	0.1	34	0.1
1,863	4.3	2,120	5.1	2,526	5.8	2,562	6.6	2,566	6.8
1,719	4.0	1,605	3.8	1,467	3.4	1,382	3.6	1,408	3.7
1,153	2.7	2,833	6.8	3,398	7.9	1,277	3.3	999	2.6
6,419	15.0	6,448	15.4	7,931	18.3	6,551	16.9	7,526	19.9
$ 42,908	99.9	$ 41,968	100.0	$ 43,245	100.0	$ 38,815	100.0	$ 37,827	100.0
$ 624		$ 2,403		$ (447)		$ (1,788)		$ 1,429	

Personal Income by Industry
Last Ten Calendar Years

(Amounts in millions)

	2009	2008	2007	2006
Total personal income	**$ 327,324**	**$ 333,906**	**$ 323,189**	**$ 304,855**
Unearned Income	78,406	76,451	71,530	65,384
Farm earnings	145	170	136	131
Nonfarm earnings	248,772	257,286	251,524	239,339
Private earnings	**218,189**	**227,345**	**222,947**	**211,900**
Agricultural services, forestry, fishing	405	388	402	396
Mining	408	468	301	363
Construction	11,992	14,307	14,839	15,193
Manufacturing	**23,299**	**25,199**	**25,862**	**24,697**
Durable goods	16,542	18,088	18,462	17,638
Nondurable goods	6,756	7,111	7,400	7,059
Transportation and utilities	6,025	6,144	5,920	5,706
Wholesale trade	12,351	13,206	13,057	12,538
Retail trade	12,288	12,747	12,976	12,952
Services	151,422	154,886	149,588	140,056
Government	**30,584**	**29,940**	**28,577**	**27,439**
Federal, civilian	5,319	5,153	5,045	4,873
Military	1,222	1,091	1,025	1,005
State and local	24,043	23,696	22,507	21,561
Personal income tax revenue (fiscal year, statutory basis)	$ 10,584	$ 12,484	$ 11,400	$ 10,483
Total personal income	$ 327,324	$ 333,906	$ 323,189	$ 304,855
Average Effective Rate	3.2%	3.7%	3.5%	3.4%
Highest Earned Income Tax Rate	5.3%	5.3%	5.3%	5.3%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue. Average effective rate is individual income tax revenue divided by personal income.

Note: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System adjusted its methodology in 2008. Prior years restated.

2005	2004	2003	2002	2001	2000
$ 282,367	**$ 271,086**	**$ 258,600**	**$ 254,103**	**$ 253,007**	**$ 243,132**
55,211	51,966	52,227	51,123	49,830	46,105
126	146	132	131	110	131
227,030	218,974	206,242	202,848	203,068	196,896
200,639	**193,995**	**182,312**	**179,478**	**180,697**	**175,464**
400	371	314	298	278	226
310	296	318	283	306	422
14,459	13,976	13,223	13,301	12,878	11,234
24,485	**24,356**	**24,159**	**24,560**	**26,170**	**27,664**
17,538	17,547	17,175	17,772	19,203	20,503
6,946	6,809	6,984	6,787	6,967	7,162
5,456	5,388	5,226	5,141	5,327	5,032
11,478	11,529	10,887	10,372	10,789	10,904
13,188	12,900	12,472	11,919	11,624	11,098
130,863	125,180	115,712	113,604	113,325	108,885
26,391	**24,978**	**23,930**	**23,370**	**22,370**	**21,432**
4,699	4,626	4,319	4,215	4,028	3,895
1,009	934	897	732	583	557
20,683	19,418	18,714	18,423	17,759	16,979
$ 9,690	$ 8,830	$ 8,026	$ 7,913	$ 9,903	$ 9,042
$ 282,367	$ 271,086	$ 258,600	$ 254,103	$ 253,007	$ 243,132
3.4%	3.3%	3.1%	3.1%	3.9%	3.7%
5.3%	5.3%	5.3%	5.3%	5.6%	5.85%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2008 and 1999

(Amounts, except income level are in thousands)

Calendar Year 2008 (or Fiscal Year 2009)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	585,029	17%	$ 6,968,523	66%
$75,001 - $100,000	289,125	8%	1,079,124	10%
$50,001 - $75,000	463,243	14%	1,176,671	11%
$25,001 - $50,000	778,201	23%	1,032,343	10%
$10,001 - $25,000	641,098	19%	261,657	2%
$10,000 and lower	664,550	19%	31,182	0%
Total	3,421,246	100%	$ 10,549,500	100%

Calendar Year 1999 (or Fiscal Year 2000)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	321,591	10%	$ 4,294,005	54%
$75,001 - $100,000	230,467	7%	963,252	12%
$50,001 - $75,000	432,587	14%	1,226,124	15%
$25,001 - $50,000	822,389	26%	1,254,757	15%
$10,001 - $25,000	722,547	23%	356,806	4%
$10,000 and lower	666,802	21%	31,288	0%
Total	3,196,383	100%	$ 8,126,232	100%

Source: Massachusetts Department of Revenue - 2008 is the most recent tax year for which complete data are available.

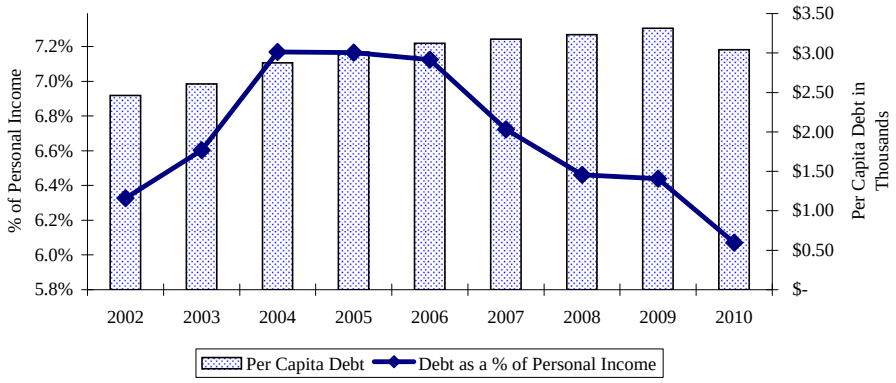
Nine -Year Schedule Of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal year ended June 30	Governmental Activities Bonded Debt [2]	Governmental Activities Capital Leases [2]	Business-Type Activities Bonded Debt [2]	Business-Type Activities Capital Leases [2]	Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population [1]	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
2010	$ 19,726,507	$ 76,608	$ 57,699	$ 40,924	$ 19,901,738	$ 327,323,542	6,544	6.1%	$ 3.04
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	333,906,368	6,499	6.4%	$ 3.31
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	323,189,195	6,466	6.5%	3.23
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,854,834	6,466	6.7%	3.17
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,467	6,453	7.1%	3.12
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,049	6,451	7.2%	3.02
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	258,600,458	6,452	7.2%	2.88
2003	15,962,506	75,754	673,398	91,934	16,803,592	254,102,715	6,441	6.6%	2.61
2002	14,955,135	91,146	670,432	79,880	15,796,593	249,243,450	6,412	6.3%	2.46

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.)* (2) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. Capital leases above exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit. Business - Type Activities includes notes payable of Institutions of Higher Education.

Nine - Year Per Capita Debt and Capital Leases



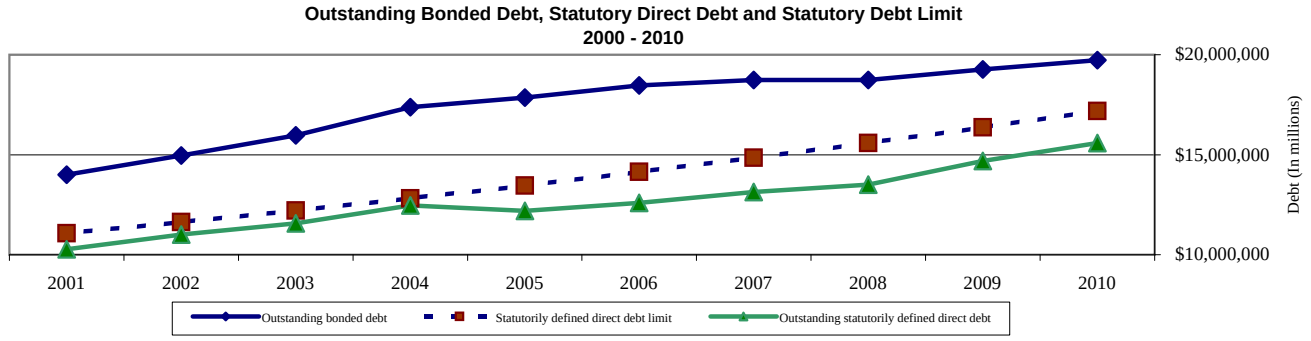
Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2010	2009	2008	2007	2006
Outstanding debt for Statutory Purposes as of June 30 **(2)**	$ 19,726,507	$ 19,264,569	$ 18,734,440	$ 18,736,961	$ 18,461,406
Less amounts excluded by statute:					
Central artery project bonds net proceeds	(1,243,250)	(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)
Chapter 5 of the Acts of 1992 bonds net proceeds	-	-	-	-	-
County debt assumed	(225)	(300)	(375)	(450)	(525)
Premium / (Discount) and issuance costs	216,688	216,890	123,335	102,048	112,673
Grant anticipation notes (GANs) net proceeds **(1)**	(997,467)	(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)
School Modernization and Reconstruction Trust bonds	(894,502)	(921,751)	(946,285)	(946,285)	(1,000,002)
Convention Center bonds net proceeds	(643,715)	(643,715)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds net proceeds	(165,559)	(231,000)	(309,203)	(368,873)	(416,830)
Special obligation gas bonds net proceedes	(419,785)	(456,984)	(482,953)	(617,226)	(647,551)
Outstanding statutorily defined direct debt	$ 15,578,692	$ 14,691,332	$ 13,504,384	$ 13,132,900	$ 12,599,293
Statutorily defined direct debt limit	$ 17,183,261	$ 16,365,011	$ 15,585,725	$ 14,843,547	$ 14,136,712
Debt margin (Debt limit less direct debt)	$ 1,604,569	$ 1,673,679	$ 2,081,341	$ 1,710,647	$ 1,537,418
Debt margin as a percentage of direct debt limit	9.34%	10.23%	13.35%	11.52%	10.88%

(1) Inclusive of Crossover Refunding Amounts.

(2) Exclusive of the Massachusetts School Building Authority debt.



2005	2004	2003	2002	2001
$ 17,856,799	$ 17,382,172	$ 15,962,506	$ 14,955,135	$ 13,999,454
(1,336,741)	(1,066,638)	(1,386,869)	(838,193)	(999,995)
-	-	(10,600)	(22,043)	(71,054)
(600)	(675)	(855)	(1,115)	(1,375)
70,937	1,120	(68,718)	(181,910)	(282,829)
(1,908,015)	(1,908,015)	(1,500,000)	(1,500,000)	(1,500,000)
(500,000)	-	-	-	-
(693,400)	-	-	-	-
(511,546)	(601,027)	(680,869)	(625,000)	(325,000)
(792,148)	(1,347,882)	(748,124)	(772,812)	(539,242)
$ 12,185,286	$ 12,459,055	$ 11,566,472	$ 11,014,062	$ 10,279,959
$ 13,463,535	$ 12,822,414	$ 12,211,823	$ 11,630,307	$ 11,076,483
$ 1,278,249	$ 363,359	$ 645,352	$ 616,245	$ 796,524
9.49%	2.83%	5.28%	5.30%	7.19%

Ten Year Schedule of Pledged Revenue Coverage

Special Obligation Highway Bonds (Gasoline Taxation), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)

(Statutory Basis, Amounts in Thousands, Except for Federal Highway Appropriations which are in Billions and on a federal fiscal year and Except for Ratios)

	2010	2009	2008	2007	2006
Highway Bonds					
These bonds are secured by a pledge of 6.86¢ fo the 21¢ state motor fuels excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax.					
Tax Receipts	$ 188,666	$ 189,246	$ 194,785	$ 148,047	$ 239,469
Operating Expenses	-	-	-	-	6,913
Net Available Revenues	$ 188,666	$ 189,246	$ 194,785	$ 148,047	$ 232,556
Annual Debt Service Debt Split	$ 58,931	$ 58,924	$ 56,535	$ 58,867	$ 56,545
Debt Service Coverage Ratio	3.20	3.21	3.45	2.51	4.11
Ratings History of Bonds*	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA
Convention Center Bonds					
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts those cities.					
Receipts	$ 75,432	$ 73,918	$ 78,984	$ 66,347	$ 55,052
Operating Expenses	59,591	27,560	21,483	33,645	16,613
Net Available Revenues	$ 15,841	$ 46,358	$ 57,501	$ 32,702	$ 38,439
Annual Debt Service MMARS	$ 36,296	$ 36,293	$ 35,600	$ 34,486	$ 33,964
Debt Service Coverage Ratio	0.44	1.28	1.62	0.95	1.13
Ratings History of Bonds*	A2, A	A2, A	A2, A	A2, A	A2, A
Grant Anticipation Notes					
These notes are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10 ¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation.					
Receipts	$ 761,351	$ 828,956	$ 463,588	$ 462,484	$ 451,284
Operating Expenses	12,035	-	-	-	-
Net Available Revenues	$ 749,316	$ 828,956	$ 463,588	$ 462,484	$ 451,284
Annual Debt Service Debit Limit	$ 196,248	$ 204,788	$ 211,709	$ 211,712	$ 211,712
Debt Service Coverage Ratio	3.82	4.05	2.19	2.18	2.13
Ratings History of Bonds*	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1)	$ 51,278	$ 39,358	$ 36,747	$ 34,373	$ 33,975

*(1) Source: The Federal Budget for Fiscal 2011, Historical Tables, Table 9.6 2010 is estimated. *Uninsured rating, if available.*

2005	2004	2003	2002	2001
$ 196,210	$ 196,380	$ 194,232	$ 191,559	$ 188,763
10,052	6,172	7,007	-	-
$ 186,158	$ 190,208	$ 187,225	$ 191,559	$ 188,763
$ 48,378	$ 124,751	$ 52,123	$ 52,123	$ 52,120
3.85	1.52	3.59	3.68	3.62
AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-	AA-
$ 50,561	$ 35,103			
19,843	81,644			
$ 30,718	$ (46,541)			
$ 18,350	$ -			
1.67	NMF			
A2, A	A2, A			
$ 449,331	$ 599,040	$ 507,716	$ 497,453	$ 460,376
-	29,208	23,546	8,993	-
$ 449,331	$ 569,832	$ 484,170	$ 488,460	$ 460,376
$ 95,223	$ 93,466	$ 74,822	$ 74,821	$ 61,384
4.72	6.10	6.47	6.53	7.50
Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
$ 31,433	$ 30,188	$ 30,379	$ 30,115	$ 27,206

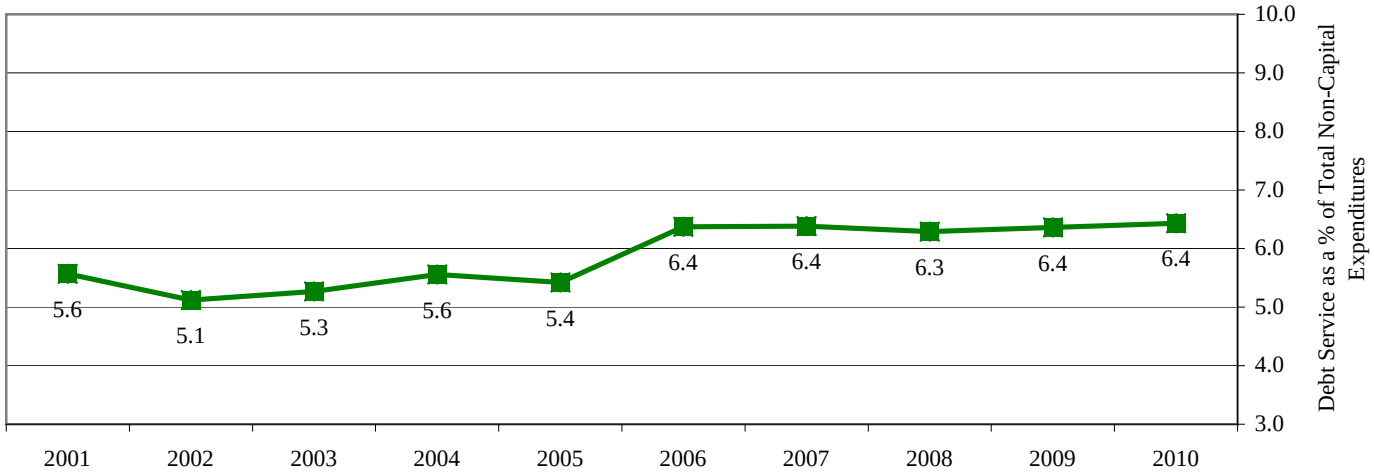
Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures For General Bonded Debt To Total Non-Capital Expenditures - Fund Perspective
All Governmental Fund Types

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total Non-capital expenditures	Ratio
2010	$ 2,407	$ 37,431	6.4
2009	2,410	37,878	6.4
2008	2,239	35,609	6.3
2007	2,166	33,918	6.4
2006	2,028	31,831	6.4
2005	1,719	31,700	5.4
2004	1,605	28,888	5.6
2003	1,467	27,858	5.3
2002	1,382	26,998	5.1
2001	1,408	25,295	5.6

Amounts are shown net of Massachusetts School Building Authority expenditures and debt service. Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.

Debt Service to Non-Capital Expenditures Ratio 2001- 2010



Component Units Revenue Bond Coverage
For The Last Ten Fiscal Years

(Amounts in thousands)

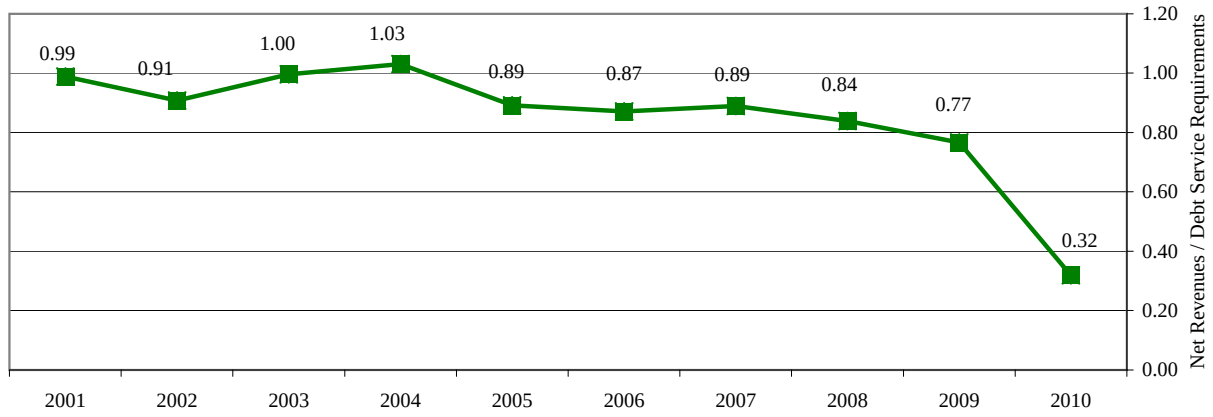
Fiscal year ended June 30	Net revenues [1]	Debt service requirements [2]	Coverage Ratio
2010	$ 431,441	$ 1,350,251	0.32
2009	805,316	1,050,655	0.77
2008	728,445	868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers an depreciation of only those Authorities with revenue bonds outstanding. Beginning FY2010, interest expense were included in the net revenue calculation. For FY10, the interest expenses amounted to $620.8 million

(2) Debt service requirements represent total debt service payments made less debt servic paid on short-term borrowings of only those Authorities with revenue bonds outstanding

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 2001 - 2010



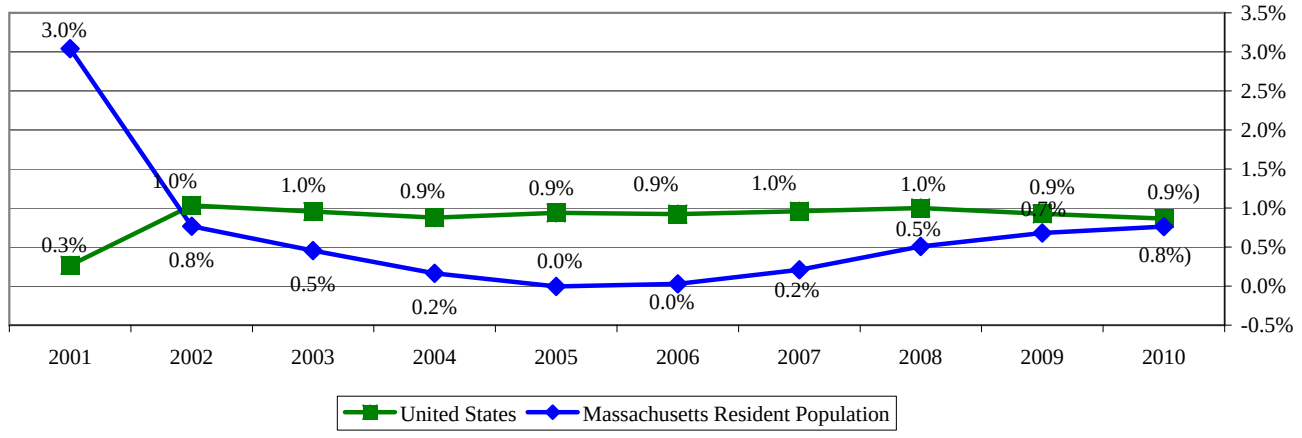
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population [1]	% Change	Massachusetts as % of U.S.
2010	307,007	0.9%	6,594	0.8%	2.1%
2009	304,375	0.9%	6,544	0.7%	2.1%
2008	301,580	1.0%	6,499	0.5%	2.2%
2007	298,593	1.0%	6,466	0.2%	2.2%
2006	295,753	0.9%	6,453	0.0%	2.2%
2005	293,046	0.9%	6,451	0.0%	2.2%
2004	290,326	0.9%	6,452	0.2%	2.2%
2003	287,804	1.0%	6,441	0.5%	2.2%
2002	285,082	1.0%	6,412	0.8%	2.2%
2001	282,172	0.3%	6,363	3.0%	2.3%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.). FY01 reflects census 2000 data.*

Massachusetts and United States Estimated Year- to- Year Population Change
2001 - 2010

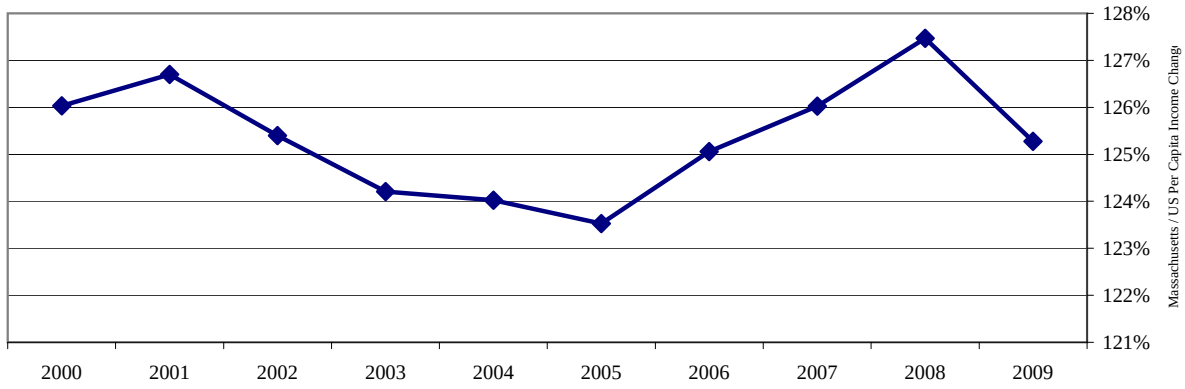


Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Calendar Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2009	39,626	-2.6%	49,643	-2.7%	125.3%
2008	40,673	4.3%	51,028	4.3%	127.5%
2007	39,458	4.7%	49,727	5.5%	126.0%
2006	37,698	6.4%	47,144	7.7%	125.1%
2005	35,424	4.6%	43,757	4.1%	123.5%
2004	33,881	5.0%	42,021	4.8%	124.0%
2003	32,271	2.6%	40,083	1.6%	124.2%
2002	31,461	1.0%	39,451	0.0%	125.4%
2001	31,145	2.7%	39,460	3.3%	126.7%
2000	30,318	7.0%	38,210	10.2%	126.0%

Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 1990-2010 were released on September 20, 2010. These estimates incorporate newly available state-level source data. Per capita personal income were computed using midyear population estimates of the Census Bureau, released October 2009.

Massachusetts vs. United States Year- to- Year Per Capita Net Income
Calendar Years 2000 - 2009



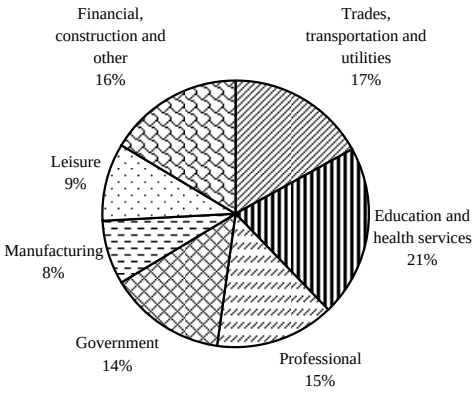
Nonagricultural Employment By Sector and Industry
In Massachusetts And The United States For 2010

(Amounts in thousands)

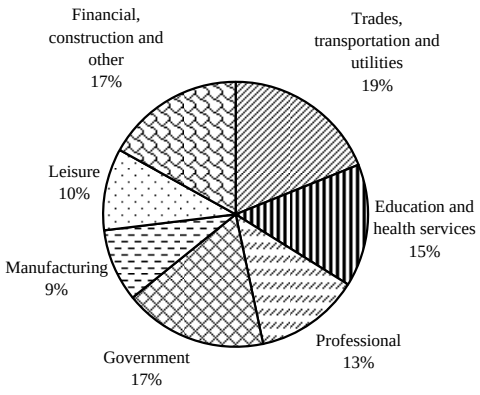
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	253	7.9%	11,672	8.9%	88.8%
Non-manufacturing:					
Construction	108	3.4%	5,596	4.3%	78.8%
Trade, Transportation and Utilities Employment	536	16.8%	24,741	19.0%	88.6%
Education and health services	666	20.9%	19,532	15.0%	139.6%
Financial activities	207	6.5%	7,591	5.8%	111.7%
Information activities	85	2.7%	2,711	2.1%	128.3%
Leisure and hospitality services	302	9.5%	13,100	10.0%	94.5%
Professional and business services	464	14.6%	16,697	12.8%	113.9%
Natural Resources, Mining and Other	120	3.8%	6,056	4.6%	80.8%
Federal, state and local government	445	14.0%	22,723	17.4%	80.1%
Total Non-manufacturing	**2,932**	**92.1%**	**118,747**	**91.1%**	**101.1%**
Total	**3,185**	**100.0%**	**130,419**	**100.0%**	

Source: - Bureau of Labor Statistics, June 2010 Employment, seasonally adjusted, data as of November 2010.

Massachusetts Employment by Industry June 2010



United States Employment by Industry June 2010

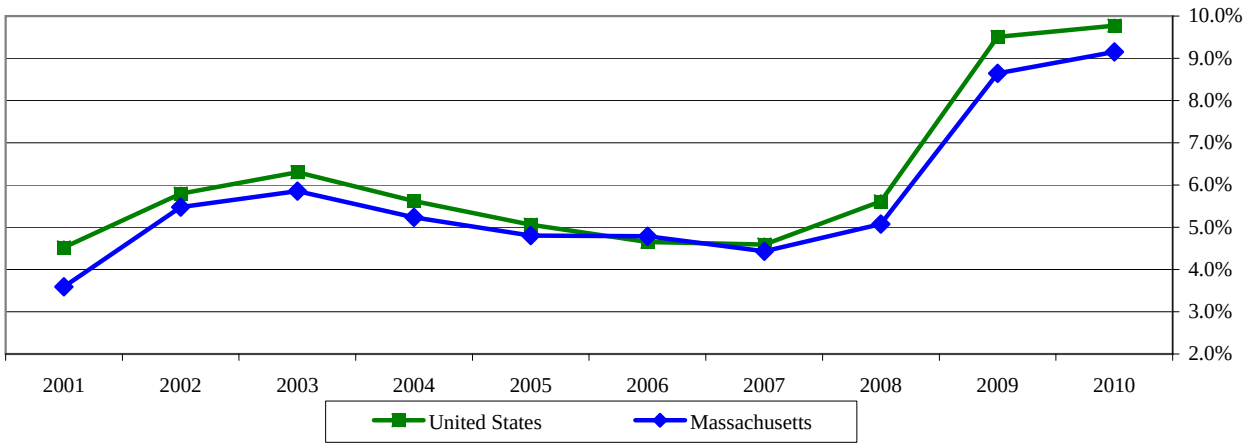


Ten-Year Schedule Of Fiscal Year Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

	Massachusetts			United States			
Fiscal Year	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	Massachusetts Rate as % of U.S. Rate
2010	3,477	318	9.1%	153,898	15,040	9.8%	93.6%
2009	3,420	296	8.6%	154,926	14,729	9.5%	90.9%
2008	3,424	174	5.1%	154,400	8,662	5.6%	90.5%
2007	3,416	152	4.4%	153,085	7,028	4.6%	96.6%
2006	3,409	163	4.8%	151,398	7,039	4.6%	103.0%
2005	3,373	162	4.8%	149,262	7,551	5.1%	95.0%
2004	3,381	177	5.2%	147,460	8,286	5.6%	93.2%
2003	3,408	200	5.9%	147,056	9,266	6.3%	93.0%
2002	3,468	190	5.5%	144,808	8,393	5.8%	94.4%
2001	3,399	122	3.6%	143,357	6,484	4.5%	79.3%

Massachusetts and United States Averaage Unemployment Rates FY2001 to FY2010



Source: - Federal Bureau of Labor Statistics, November 2010. Amounts and rates from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.

Largest Private Sector Massachusetts Employers 2010 and 2001

(Alphabetical Order)

2010			2001		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Brigham and Women's Hospital, Inc.	Boston	Hospital
Brigham and Women's Hospital, Inc.	Boston	Hospital	Caritas Christi Inc	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	CGU Corp	Boston	Insurance
EMC Corporation	Hopkinton	Computer Storage & Peripherals	Children's Hospital Corp	Boston	Hospital
General Hospital Corporation	Boston	Hospital	Dennison Manufacturing	Framingham	Office Products
Harvard University	Cambridge	University	FMR Co. (Fidelity)	Boston	Investments
Massachusetts Institute of Technology	Cambridge	University	John Hancock Life Insurance Company	Boston	Insurance
Raytheon Company	Lexington	Electronics / Defense	Lahey Clinic	Burlington	Hospital
S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket	Liberty Mutual Insurance Company, Inc. (and Subsidiaries)	Boston	Insurance
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Massachusetts General Hospital	Boston	Hospital
Southcoast Hospitals Group	New Bedford	Hospital	Massachusetts Mutual Life Insrance Co	Springfield	Insurance
State Street Bank and Trust Company	Boston	Banking	New England Medical Center Hospitals	Boston	Hospital
The Children's Hospital Corporation	Boston	Hospital	Putnam Investments	Boston	Investments
Tufts University	Boston	University	Raytheon Company	Lexington	Electronics / Defense
UMASS Memorial Medical Center, Inc.	Worcester	Hospital	State Street Bank and Trust Company	Boston	Banking
			Tufts Associated Health Maintenance Organization	Waltham	HMO

Source: - Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2010 survey. In addition, Bank of America NA,, Home Depot USA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who registereach store, facility or franchisee as a separate employer.

Standard and Poors 500 Companies Headquartered in Massachusetts

Company	Stock Symbol	Headquarters	Product or Service	Worldwide Employees	Latest Audited Revenues ($millions)	Fortune 500 Rank 2010	Fortune 500 Rank 2009
Raytheon Company (New)	RTN	Lexington	Industrials	75,100	$ 24,881	95	108
Staples Inc.	SPLS	Framingham	Consumer Discretionary	54,149	24,275	101	109
TJX Companies Inc.	TJX	Framingham	Consumer Discretionary	154,000	20,288	119	131
EMC Corporation	EMC	Hopkinton	Information Technology	43,200	14,025	166	172
State Street Corp.	STT	Boston	Diversified Financial Services	28,940	9,362	249	206
Thermo Fisher Scientific	TMO	Waltham	Health Care	35,400	10,109	234	258
Boston Scientific	BSX	Natick	Health Care Equipment	20,100	8,188	279	320
Genzyme Corp.	GENZ	Cambridge	Health Care	12,000	4,515	458	-
Biogen IDEC Inc.	BIIB	Cambridge	Health Care	4,750	4,377	471	-
Iron Mountain Incorporated	IRM	Boston	Industrials	21,000	3,013	-	-
Analog Devices	ADI	Waltham	Information Technology	8,500	2,761	-	-
PerkinElmer, Inc.	PKI	Wellesley	Health Care	8,200	1,812	-	-
Boston Properties	BXP	Boston	Financials	700	996	-	-
Waters Corporation	WAT	Milford	Health Care	5,200	904	-	-
American Tower Corp.	AMT	Boston	Telecommunication Services	1,420	1,724	-	-
Teradyne, Inc.	TER	North Reading	Information Technology	2,900	312	-	-
Novell Inc.	NOVL	Waltham	Information Technology	4,100	675	-	-
Akamai Technologies Inc.	AKAM	Cambridge	Information Technology	1,750	609	-	-

Sources: - Standard and Poors (from Standardandpoors.com) , Finance.Yahoo.com and Fortune Magazine (from fortune.com). Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club, Global Partners and Perini are part of the Fortune 500, but are not part of the Standard and Poors 500.

Full Time Equivalent Employees
By Function / Program
Last Ten Years

Functions / Programs	2010	2009	2008	2007	2006
General Government……	8,280	6,277	6,368	6,204	6,177
Judiciary……	7,388	7,821	8,021	7,993	7,635
Energy and Environmental affairs……	2,783	2,955	2,928	2,847	2,686
Health and human services……	21,401	22,605	23,322	22,972	22,935
Transportation and construction……	4,127	3,043	2,892	1,903	2,708
Education……	1,575	844	615	617	651
Public safety and homeland security……	15,857	13,951	14,242	14,550	13,517
Housing and economic development……	846	2,314	2,302	2,339	2,264
Higher Education:					
University of Massachusetts……	14,031	13,814	13,651	13,602	13,360
State colleges……	4,282	4,650	4,519	4,495	4,301
Community colleges……	4,276	4,781	4,775	4,689	4,603
Totals……	**84,846**	**83,055**	**83,636**	**82,211**	**80,837**
Percentage Change ……	**2%**	**-1%**	**2%**	**2%**	**2%**

Source: Office of the State Comptroller

"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and constructions includes MassDOT. FTE's are rounded. Prior years not restated for changes.

2005	2004	2003	2002	2001	Change - 2010 from 2001
5,750	5,449	5,644	5,724	6,261	32%
7,467	7,099	7,198	7,393	8,159	-9%
2,744	2,612	2,814	2,949	3,161	-12%
22,855	22,229	23,087	23,269	25,143	-15%
2,759	1,794	1,843	1,820	2,094	97%
587	569	579	545	530	197%
13,152	13,578	13,964	14,446	14,752	7%
2,299	2,300	2,322	2,382	2,468	-66%
12,807	12,356	12,513	11,821	12,572	12%
4,224	3,914	3,957	3,812	4,026	6%
4,523	4,219	4,408	4,340	4,720	-9%
79,167	**76,120**	**78,328**	**78,501**	**83,886**	1%
4%	**-3%**	**0%**	**-6%**	**1%**	

Massachusetts Road Inventory
Calendar Year End, Lane Miles by Type
Last Ten Calendar Years

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2009	3,212	14,974	9,589	44,112	71,887	0.30%	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.41%	81.1%	18.9%
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%
2000	3,184	13,498	10,936	42,339	69,956	0.18%	68.7%	31.3%

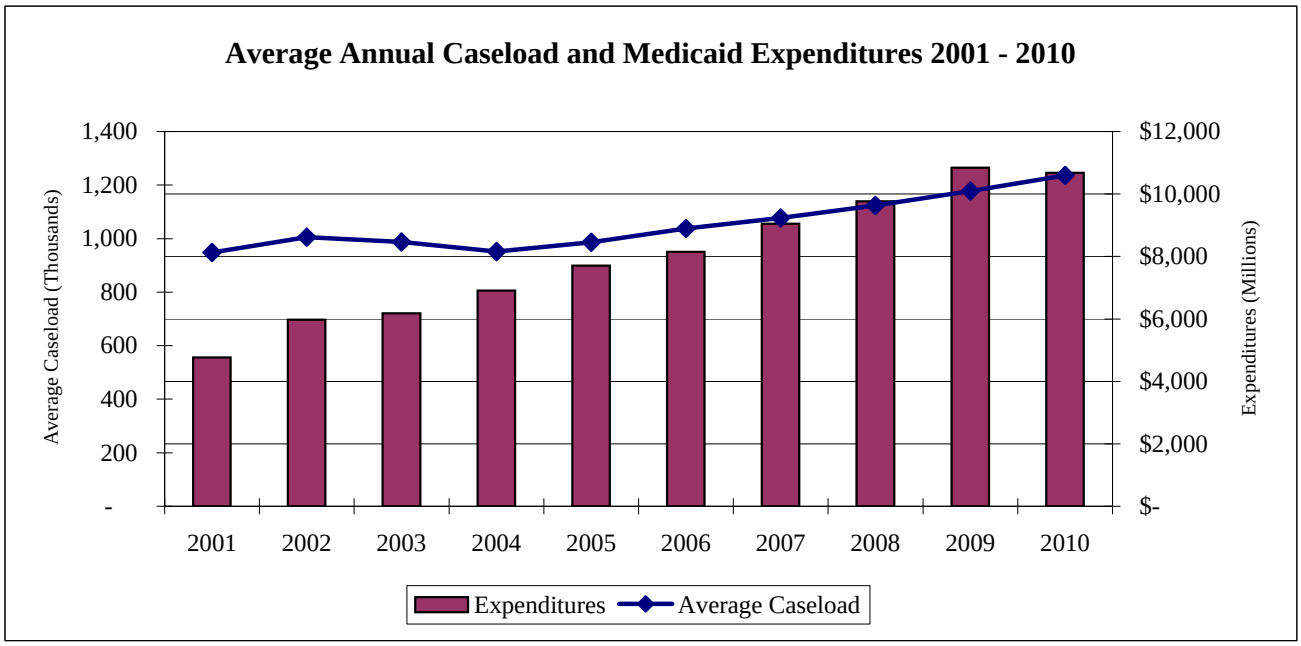
Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.

Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective
Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2010	1,236	$ 10,678	$ 8,639
2009	1,178	10,843	9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815
2004	952	6,909	7,257
2003	987	6,177	6,258
2002	1,005	5,979	5,949
2001	948	4,761	5,022

Source: Executive Office for Health and Human Services.



Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years

Functions / Programs	Survey Year 2010	Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006
General Government:					
Total Acreage	2,373	2,495	1,858	1,681	2,050
Number of Improvements	227	240	163	84	232
Gross square footage	6,797,819	6,660,792	5,736,028	4,767,751	6,745,962
Judiciary:					
Total Acreage	141	141	145	135	118
Number of Improvements	68	69	71	71	68
Gross square footage	4,787,564	4,826,836	5,080,836	4,889,645	4,351,128
Energy and environmental affairs					
Total Acreage	623,952	606,662	591,511	586,173	569,282
Number of Improvements	2,183	2,170	2,162	2,156	2,159
Gross square footage	7,299,322	7,246,280	7,242,870	7,185,678	7,057,840
Housing and economic development:					
Total Acreage	2	2	2	2	2
Number of Improvements	6	6	6	6	6
Gross square footage	77,642	77,642	77,642	77,642	77,642
Health and human services:					
Total Acreage	7,196	7,166	7,259	7,604	7,615
Number of Improvements	866	902	980	1,059	1,001
Gross square footage	10,809,259	11,214,034	12,270,433	13,371,858	12,333,804
Transportation and public works:					
Total Acreage	6,966	7,050	6,930	6,933	7,217
Number of Improvements	918	915	915	914	910
Gross square footage	4,876,689	4,876,936	4,876,936	4,856,942	4,845,365
Education:					
Total Acreage	233	233	233	233	233
Number of Improvements	43	43	43	43	43
Gross square footage	272,352	272,352	272,352	272,352	272,352
Public safety and homeland security:					
Total Acreage	18,693	18,331	18,324	18,319	17,530
Number of Improvements	1,029	1,028	1,023	1,031	1,026
Gross square footage	12,685,447	12,632,897	12,631,497	12,768,250	12,885,742
Higher Education:					
Total Acreage	7,169	7,151	7,149	7,133	7,089
Number of Improvements	975	937	940	932	933
Gross square footage	32,117,854	31,101,329	31,197,929	30,947,996	30,870,743
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage	**666,725**	**649,231**	**633,412**	**628,212**	**611,136**
Number of Improvements	**6,315**	**6,310**	**6,303**	**6,296**	**6,378**
Gross square footage	**79,723,948**	**78,909,098**	**79,386,523**	**79,138,114**	**79,440,578**
Percentage Change for Commonwealth:					
Acreage	**2.7%**	**2.5%**	**0.8%**	**2.8%**	**1.8%**
Improvements	**0.1%**	**0.1%**	**0.1%**	**-1.3%**	**-1.3%**
Gross square footage	**1.0%**	**-0.6%**	**0.3%**	**-0.4%**	**-3.0%**

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorbtion of county properties. See http://www.mass.gov/Eoaf/docs/dcam/dlforms/re/massets_report_2010.pdf.

Survey Year 2005	Survey Year 2004	Survey Year 2003	Survey Year 2002	Survey Year 2001
2,772	2,486	3,137	3,750	4,142
300	306	263	352	469
8,429,827	8,315,791	8,428,905	10,124,543	12,346,526
117	114	113	113	113
68	68	68	68	62
4,884,206	4,884,206	4,952,821	4,887,321	4,582,299
558,347	552,857	539,437	511,732	494,093
2,168	1,916	1,903	2,042	1,727
7,039,038	6,677,076	6,601,985	6,965,507	7,101,935
2	2	2	2	2
6	6	6	6	5
76,812	76,812	76,812	76,812	47,500
7,311	7,284	7,561	7,784	7,779
992	997	1,068	1,110	854
12,251,382	12,493,551	13,339,508	13,669,358	12,446,222
7,175	7,513	7,736	7,484	7,562
908	909	909	965	1,019
4,812,965	4,821,599	4,823,279	4,954,627	4,989,788
233	234	233	-	-
43	44	43	-	-
272,352	272,352	272,352	-	-
17,515	17,454	17,485	17,391	17,366
1,038	1,037	1,069	1,113	584
13,137,177	13,131,414	13,563,676	13,630,934	7,876,300
7,138	7,163	7,169	7,353	6,929
941	939	935	990	721
30,997,427	30,728,820	30,267,370	30,975,993	26,420,404
600,609	**595,107**	**582,873**	**555,609**	**537,985**
6,464	**6,222**	**6,264**	**6,646**	**5,441**
81,901,186	**81,401,621**	**82,326,708**	**85,285,095**	**75,810,974**
0.9%	**2.1%**	**4.9%**	**3.3%**	**2.2%**
3.9%	**-0.7%**	**-5.7%**	**22.1%**	**0.2%**
0.6%	**-1.1%**	**-3.5%**	**12.5%**	**-2.7%**

Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Ten Academic Years

Academic Year	Fall 2009	Fall 2008	Fall 2007	Fall 2006	Fall 2005
ENROLLMENT, TUITION AND FEES					
University System					
Undergraduate (FTE)……	44,543	42,768	40,806	39,283	38,286
Graduate (FTE)……	10,177	9,460	9,328	8,906	8,549
System Enrollment……..…	**54,720**	**52,228**	**50,134**	**48,189**	**46,835**
Tuition and Fees (per student)					
Resident (undergraduate)……	**$ 9,704**	**$ 9,585**	**$ 9,305**	**$ 9,000**	**$ 8,697**
State College System					
Undergraduate (FTE)……..….	34,129	33,040	32,106	31,384	30,464
Graduate (FTE)……..……	4,582	4,495	4,428	4,352	4,258
System Enrollment……..…	**38,711**	**37,535**	**36,535**	**35,736**	**34,722**
Tuition and Fees (per student)					
Resident (undergraduate)……	**$ 6,880**	**$ 6,399**	**$ 6,123**	**$ 5,855**	**$ 5,448**
Community College System					
Undergraduate (FTE)……	60,602	54,228	51,257	49,347	48,555
Tuition and Fees (per student)……					
Resident……	**$ 4,305**	**$ 3,851**	**$ 3,654**	**$ 3,526**	**$ 3,477**

	2010	2009	2008	2007	2006
DEGREES CONFERRED					
University System					
Certificates (MD's)……	329	280	270	268	260
Associate's……..…	111	103	96	117	99
Bachelors……	9,362	8,763	8,437	8,191	8,089
Masters……..….	3,029	2,882	2,808	2,503	2,484
Doctoral……	400	381	390	443	371
**Total Degrees…….. **	**13,231**	**12,409**	**12,001**	**11,522**	**11,303**
State College System					
Certificates……..….	572	605	597	615	556
Bachelors……	6,886	6,621	6,328	6,207	5,885
Masters……..….	2,467	2,343	2,318	2,201	2,190
Total Degrees……..…	**9,925**	**9,569**	**9,243**	**9,023**	**8,631**
Community College System					
Certificates……..….	2,770	2,587	2,495	2,297	2,422
Associates……..….	9,257	8,549	8,247	7,942	8,024
**Total Degrees…….. **	**12,027**	**11,136**	**10,742**	**10,239**	**10,446**
Total All Systems - Degrees……	**35,183**	**33,114**	**31,986**	**30,784**	**30,380**

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

Fall 2004	Fall 2003	Fall 2002	Fall 2001	Fall 2000	Change - 2009 from 2000
37,598	37,904	37,762	37,961	37,101	20.1%
8,494	8,494	8,334	8,223	8,139	25%
46,093	**46,398**	**46,097**	**46,184**	**45,240**	**21.0%**
$ 8,437	**$ 6,801**	**$ 5,798**	**$ 4,693**	**$ 4,697**	**106.6%**
29,051	29,238	26,489	623	26,791	27.4%
8,658	8,360	7,296	7,138	3,860	19%
37,709	**37,598**	**33,785**	**7,761**	**30,651**	**23.2%**
$ 5,100	**$ 4,590**	**$ 3,743**	**$ 2,954**	**$ 2,962**	**132.3%**
50,972	51,067	49,483	46,756	44,098	37.4%
$ 3,380	**$ 3,265**	**$ 2,833**	**$ 2,273**	**$ 2,153**	**100.0%**

2005	2004	2003	2002	2001	Change - 2010 from 2001
167	150	146	196	151	117.9%
95	119	106	111	110	0.9%
8,205	7,764	7,645	7,525	7,489	25.0%
2,588	2,467	2,311	2,165	2,332	29.9%
389	407	322	358	337	18.7%
11,444	**10,907**	**10,530**	**10,355**	**10,419**	**27.0%**
540	490	535	313	251	127.9%
5,549	5,525	5,545	5,096	5,166	33.3%
2,048	2,157	2,053	1,881	1,659	48.7%
8,137	**8,172**	**8,133**	**7,290**	**7,076**	**40.3%**
2,278	2,281	1,947	1,930	1,941	42.7%
7,993	7,670	7,184	6,939	6,958	33.0%
10,271	**9,951**	**9,131**	**8,869**	**8,899**	**35.2%**
29,852	**29,030**	**27,794**	**26,514**	**26,394**	**33%**

Calculation of Transfers: Stabilization Fund

June 30, 2010

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by FY 2011 General Appropriation Act Section 142, which superceded certain parts of the Section 5c . It presents information contained in the official accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	Amounts in thousands
Undesignated Budgeted Fund Balances before calculation of transfers:	
General Fund	$ 75,900
Commonwealth Transportation Fund	-
Workforce Training Fund	11,153
Massachusetts Tourism Fund	28,178
International Educational and Foreign Language Grant Program Fund	-
Net surplus / (deficit)	**$ 115,231**
Less: Amount to be carried forward per Chapter 29, Section 5c(a) per Schedule A	93,962
Less: Amount to be deposited in the Stabilization Fund also per Chapter 29, Section 5c(a) per Schedule A · *Not Applicable for FY2010 Per FY 2010 General Appropriation Act, Section 126.*	Not Applicable
Net consolidated net surplus as defined in Chapter 29, Section 5c, as amended to be deposited into the Stabilization Fund	**$ 21,269**
Chapter 131 of the Acts of 2010, Section 142 Transfers:	
The comptroller shall transfer $10,000,000 from the General Fund to the Massachusetts Life Sciences Investment Fund	$ 10,000
Remaining Amount transfered from General Fund to the Stablization Fund	$ 11,269
General Law Section 5c of Chapter 29, Fund Balance Deficit Elimination transfers :	
General Fund	$ -
Commonwealth Transportation Fund	-
Workforce Training Fund	-
Massachusetts Tourism Fund	-
International Educational and Foreign Language Grant Program Fund	-
Net	**$ -**
Fund Balance after Deficit Elimination	
General Fund	$ 75,900
Commonwealth Transportation Fund	-
Workforce Training Fund	11,153
Massachusetts Tourism Fund	28,178
International Educational and Foreign Language Grant Program Fund	-
Net	**$ 115,231**
Stabilization Balance Reconciliation:	
Balance as of July 1, 2009	$ 841,344
Investment income, certain tax revenues and other recoveries	23,764
Less: Transfers from Stabilization Fund	
Investment Income (21,783)	
Principal transfers (184,791)	
Transfers from Stabilization during the FY 2010	(206,574)
Transfer per Chapter 31 of the Acts of 2010, per the calculation above	11,269
Stabilization Fund Balance	**$ 669,803**

Calculation Of Transfers: Tax Reduction Fund

June 30, 2010
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:		
Undesignated fund balance in the Stabilization Fund	$	669,803
Allowable Stabilization Fund balance (per Schedule B)		4,546,502
Stabilization Fund excess, if any, transferable to Tax Reduction Fund	$	-
Part 2: Status of Stabilization Fund after transfers:		
Stabilization Fund balance	$	669,803
Transfer to Tax Reduction Fund		-
Stabilization Fund balance after transfer to Tax Reduction Fund	$	669,803
Part 3: Status of Tax Reduction Fund after transfers:		
Tax Reduction Fund balance	$	-
Transfers from Stabilization Fund		-
Tax Reduction Fund balance after transfers	$	-

MASSACHUSETTS GENERAL INFORMATION

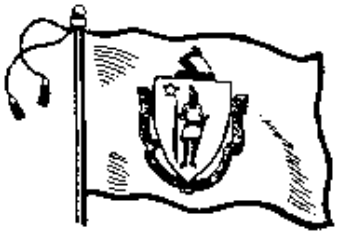
Admitted to Union (6th State): 1788
Population: 6,497,967

Capital: Boston
Nickname: Bay State

The State Seal

The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag



The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower

The Mayflower

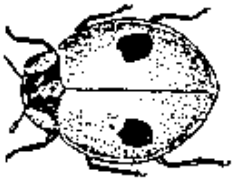
The State Fish

The Cod, a soft-finned fish, usually 10-20bs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

The State Bird

The Black Capped Chickadee

The State Insect



The Lady Bug

The State Tree

The American Elm was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

The State Dog

The Boston Terrier, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

Beverage: Cranberry Juice
Dessert: Boston Cream Pie

Muffin: The Corn Muffin
Cookie: Chocolate Chip

Horse: The Morgan Horse
Bean: Navy Bean